NOTE

This Microfiche meets the quality requirements of the American National Standard for Microfiche of Documents (ANSI PH5.9-1975). However, because of imperfections in the document from which it was made, it contains images that are illegible or difficult to read. The source document for this microfiche is the best copy that could be obtained prior to filming.

Congressional Information Service, Inc.
Washington, D.C.

OVERSIGHT OF VA HOME LOAN GUARANTY PROGRAM, INCLUDING H.R. 2618, H.R. 2664, AND H.R. 2505

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND MEMORIAL AFFAIRS

OF THE

COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

FIRST SESSION

APRIL 21, 1983

Printed for the use of the Committee on Veterans' Affairs

Ser. No. 98-16

U.S. GOVERNMENT PRINTING OFFICE
21-217 O WASHINGTON : 1983

H761-21

COMMITTEE ON VETERANS' AFFAIRS

G. V. (SONNY) MONTGOMERY, Mississippi, *Chairman*

DON EDWARDS, California
BOB EDGAR, Pennsylvania
SAM B. HALL, JR., Texas
DOUGLAS APPLEGATE, Ohio
MARVIN LEATH, Texas
RICHARD C. SHELBY, Alabama
DAN MICA, Florida
THOMAS A. DASCHLE, South Dakota
WAYNE DOWDY, Mississippi
MATTHEW G. MARTINEZ, California
LANE EVANS, Illinois
MARCY KAPTUR, Ohio
FRANK HARRISON, Pennsylvania
ALAN B. MOLLOHAN, West Virginia
TIMOTHY J. PENNY, Minnesota
HARLEY O. STAGGERS, JR., West Virginia
J. ROY ROWLAND, Georgia
JIM SLATTERY, Kansas
JOHN BRYANT, Texas
BILL RICHARDSON, New Mexico

JOHN PAUL HAMMERSCHMIDT, Arkansas
CHALMERS P. WYLIE, Ohio
ELWOOD HILLIS, Indiana
GERALD B. H. SOLOMON, New York
BOB McEWEN, Ohio
CHRISTOPHER H. SMITH, New Jersey
DENNY SMITH, Oregon
PHIL GRAMM, Texas
DAN BURTON, Indiana
DON SUNDQUIST, Tennessee
MICHAEL BILIRAKIS, Florida
NANCY LEE JOHNSON, Connecticut

MACK FLEMING, *Chief Counsel and Staff Director*

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

RICHARD C. SHELBY, Alabama, *Chairman*

DOUGLAS APPLEGATE, Ohio
ALAN B. MOLLOHAN, West Virginia
DAN MICA, Florida
JOHN BRYANT, Texas
BILL RICHARDSON, New Mexico

CHRISTOPHER H. SMITH, New Jersey
DON SUNDQUIST, Tennessee
MICHAEL BILIRAKIS, Florida

CONTENTS

APRIL 21, 1983

Page

Oversight of VA home loan guaranty program, including H.R. 2618, H.R. 2664, and H.R. 2505 1

STATEMENTS OF COMMITTEE MEMBERS

Chairman Shelby 1
Hon. Christopher H. Smith 2
Hon. Bill Richardson 3

WITNESSES

Carter, Dave, Mon-Valley Unemployed Committee, McKeesport, Pa 31
Prepared statement of Mr. Carter 152
Conners, Jerry, president, Manufactured Housing Institute, accompanied by Harvey Weiner, counsel, coordinating council on Manufactured Housing Finance 18
Prepared statement of Mr. Conners 97
Gourley, Willard, president, Northwestern Mortgage Corporation, Charlotte, N.C., on behalf of the Mortgage Bankers Association of America 15
Prepared statement of Mr. Gourley 67
Heilman, John F., national legislative director, Disabled American Veterans 21
Prepared statement of Mr. Heilman 124
Magill, James N., special assistant, national legislative service, Veterans of Foreign Wars 23
Prepared statement of Mr. Magill 139
Naschinski, Emil, Assistant Director, National Economic Commission, The American Legion 22
Prepared statement of Mr. Naschinski 133
O'Toole, Robert M., Director, Loan Guaranty Service, Veterans' Administration, accompanied by Raymond L. Brodice, assistant director for loan management, and James P. Kane, assistant general counsel 4
Prepared statement of Mr. O'Toole 51
Passamaneck, Lt. Col. David J., national legislative director, AMVETS 24
Prepared statement of Colonel Passameneck 142
Small, Horace, deputy director, Philadelphia Unemployment Project, Philadelphia, Pa 27
Prepared statement of Mr. Small 143

MATERIAL SUBMITTED BY THE RECORD

Bills:
H.R. 2505 To amend title 38, United States Code, to permit substitution of a veteran's housing loan entitlement when the veteran-transferee is not an immediate transferee 35
VA views on H.R. 2505 36
H.R. 2618 To amend chapter 37 of title 38, United States Code, to authorize the Administrator of Veterans' Affairs to provide mortgage assistance to veterans with loans guaranteed by the Veterans' Administration in order to avoid foreclosures of such loans 38
VA views on H.R. 2618 43

Bills—Continued
H.R. 2664 To amend title 38, United States Code, to expand the availability of loans guaranteed by the Veterans' Administration for the purchase of manufactured homes that are permanently affixed to a lot ..... Page 46
VA views on H.R. 2664 49
Written committee questions and their response:
Chairman Shelby to VA 62

OVERSIGHT OF VA HOME LOAN GUARANTY PROGRAM, INCLUDING H.R. 2618, H.R. 2664, AND H.R. 2505

THURSDAY, APRIL 21, 1983

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9 a.m., in room 334, Cannon House Office Building, Hon. Richard Shelby (chairman of the subcommittee) presiding.

Present: Representatives Shelby, Applegate, Bryant, Richardson, Christopher H. Smith, Sundquist, and Bilirakis.

OPENING STATEMENT OF CHAIRMAN SHELBY

Mr. SHELBY. The subcommittee will be in order.

This morning we meet to receive testimony on three legislative proposals pending before the subcommittee.

The first, H.R. 2618, would provide financial relief to unemployed veteran homeowners facing foreclosure. If a veteran, through no fault of his own, is at least 6 months delinquent in his mortgage payments, the VA would be authorized to set up an escrow account in his behalf to make him current and provide up to 6 months of additional relief. This assistance could be extended, if necessary, but in no event could the total monetary advance exceed $8,400.

This measure is specifically geared to those needy veterans who are suffering from the effects of unemployment, underemployment, or serious illness. Recent statistics indicate that 800,000 Vietnam and disabled veterans are unemployed. The economy appears to be on an upward trend, however, and I am optimistic that many of these veterans will be able to get back on their feet within a reasonable period of time. Hopefully, we can prevent the loss of their homes during this interim period of economic adversity.

No new money would be required from the taxpayers to provide this assistance. This program would be funded out of existing revolving funds currently used to pay claims. It is possible that this bill could even prove cost effective by substituting this mortgage payment advance for the high expenses currently incurred by the Veterans' Administration in paying claims of lenders, instituting the foreclosure procedures and reselling acquired properties.

We will also be looking at H.R. 2506, a bill which would reinstate loan guaranty entitlement when certain property is transfered. This would help the veteran who has allowed his loan to be assumed by a second party to reuse his entitlement if and when the property is ever purchased by another veteran whose own entitle-

ment could be substituted for the original veteran's under the existing terms.

The last bill under consideration is H.R. 2664, legislation which would authorize the Veterans' Administration to guarantee loans for manufactured homes under the provisions applicable to regular VA home loans rather than the mobile home provisions under which they currently fall. FHA has recently liberalized its regulations on manufacutured housing loans and it seems to be a good idea for the VA to look at this in view of the beneficial aspects it could have on veterans seeking an alternative mode of affordable housing.

We will also be receiving a status report on current VA loan activity.

We have received several statements for the hearing record, which will, without objection be entered in the hearing record.

The Chair will recognize first the gentleman from New Jersey and ranking member of the committee, Mr. Smith.

STATEMENT OF HON. CHRISTOPHER H. SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. CHRISTOPHER H. SMITH. Thank you, Mr. Chairman.

Mr. Chairman, let me begin by commending you for calling today's hearing to obtain oral and written testimony on the status of the VA home loan program in general and to receive specific comment on three bills, H.R. 2618, H.R. 2505, and H.R. 2664.

Enacted in 1944, the VA home loan program has enabled over 11 million veterans to secure an essential part of the American dream, owning their own home. According to the VA, mortgage credit totaling almost $203 billion has been pumped into the economy as a result of this highly successful program.

Mr. Chairman, during the last 3 years high interest rates, the economic recession, and record unemployment have resulted in a substantial increase in VA loan defaults and a significant decrease in loan cures. The number of home loan foreclosures have skyrocketed. The American Legion in their written testimony today will cite a rise of some 63.4 percent in foreclosures between the beginning of 1980 and the end of 1982. Behind this startling statistic are the thousands of veterans and their families who have lost their homes.

This tragedy begs an immediate solution, Mr. Chairman.

I am pleased to have joined you in cosponsoring H.R. 2618, a bill to provide financial relief to VA homeowners facing foreclosures. The bill authorizes the VA to establish an escrow account for a veteran who is 6 months delinquent in his mortgage payments. This financial help can be extended, if necessary, but is not to exceed $8,400.

The second bill, H.R. 2505, would allow substitution of a veterans housing loan entitlement in cases where the veteran transferee is not an immediate transferee.

According to the VA, there has been an increasing number of requests for substitution of entitlement where the veteran assuming the loan is not an immediate transferee of the original veteran.

Finally, we will hear testimony today on H.R. 2664, a bill that would authorize the VA to guarantee loans for manufactured homes under section 1810, thus allowing 30-year home loans.

On behalf of the minority, Mr. Chairman, allow me to welcome all of our witnesses today. I look forward to their testimony.

Mr. SHELBY. The gentleman from Tennessee?

Mr. SUNDQUIST. No comments.

Mr. SHELBY. The gentleman from Florida?

Mr. BILIRAKIS. No comments.

Mr. SHELBY. The gentleman from New Mexico.

STATEMENT OF HON. BILL RICHARDSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW MEXICO

Mr. RICHARDSON. Mr. Chairman, I want to congratulate you for introducing these three important bills and for conducting these hearings this morning.

I realize that issues involving veterans affairs should not be resolved purely on a partisan basis, and that the veterans have received fair treatment from members of this committee on both sides of the aisle. But I must say for the record that the present administration's performance leaves much to be desired when considering issues of employment. This morning we will hear testimony that our Nation's economy in the past 2 years has endured the longest, and in many senses, the deepest recession since the Great Depression. I fully appreciate the fact this year's budget request for the VA is regarded by many as a good one, however, there are millions out there who are employed or underemployed as a result of President Reagan's policies. Vietnam veterans alone represent 835,000 of our Nation's unemployed.

In response to this problem, I am pleased to see the legislative approach which you have proposed and which the committee today is considering. I am also pleased to say that I am a cosponsor of H.R. 2618, the bill you introduced recently, The Emergency Veteran's Housing Assistance Act. I believe that supplemental assistance to the veterans provided by H.R. 2618 is timely and necessary.

Mr. Chairman, I will review testimony offered today along with comments from my constituents and I hope to take an active role in this matter when we markup the bills.

Mr. SHELBY. Thank you, Mr. Richardson.

Mr. Robert O'Toole? Is he here? Would he come up to the table? He's accompanied by Mr. Brodie and Mr. Kane.

Mr. O'Toole, your written testimony will be submitted to the record without objection and if you could just briefly sum up orally your position on this for the benefit of the members of the committee, we'd be very appreciative.

Mr. O'TOOLE. I would appreciate that, Mr. Chairman. Thank you very much.

STATEMENT OF ROBERT M. O'TOOLE, DIRECTOR, LOAN GUARANTY SERVICE, ACCOMPANIED BY RAYMOND L. BRODIE, ASSISTANT DIRECTOR FOR LOAN MANAGEMENT, AND JAMES P. KANE, ASSISTANT GENERAL COUNSEL

Mr. O'TOOLE. It is a pleasure to appear before you this morning to discuss the operation of the Veterans' Administration housing

program and to present the views of the VA on a measure pending before this committee.

I have with me today Raymond L. Brodie, Assistant Director for Loan Management, and James P. Kane, Assistant General Counsel.

Mr. Chairman, the VA loan program has previously had high workloads in one area or another, such as loan origination or loan servicing; today, however, the program for the first time faces high workloads in all areas, from loan origination to the resale of foreclosed properties.

Improvements in the Nation's economy are being reflected in the general moderation of interest rates. This has permitted the VA to reduce the interest rate on guaranteed home loans from 16.5 percent in January 1982, to the current 12 percent, which has been in effect since November 1982.

This interest rate reduction has been accompanied by a surge in home purchases and a corresponding increase in the so-called front end of the VA home loan program. During the 6-month period from September 1981, to February 1982, the VA issued over 71,000 certificates of reasonable value and over 34,000 certificates of commitment to guarantee loans.

During a comparable period ending February 1983, the number of certificates of reasonable value issued increased 216 percent and certificates of commitment increased 203 percent.

If interest rates remain steady, VA loan volume can be expected to remain at current levels or increase slightly.

In October 1980, Mr. Chairman, the Congress enacted Public Law 96–385 which permits a veteran who obtained a VA guaranteed home loan at a high rate of interest to refinance that loan with a new VA loan at a lower interest rate. More than 235,000 veterans obtained VA home loans bearing interest rates varying from 13 to 17.5 percent.

During fiscal 1982 the VA processed only 8,400 refinancing loans. During the first 5 months of fiscal 1983 the VA processed more than 42,000 refinancing loans. We estimate that approximately two-thirds of those were interest rate reduction refinancing applications.

Mr. Chairman, the VA has set timeliness objectives for our field stations. Due to increased workloads during the 6-month period ending February 1983, however, an average of over 17 of our field stations reported out-of-line timeliness situations each month.

A number of innovations have, therefore, been introduced to improve productivity in our field stations. For example, standards for approval of lenders authorized to underwrite VA guaranteed loans on the automatic basis have been revised to increase lender participation in this program.

Approved automatic lenders must now underwrite at least 50 percent of their cases using the automatic procedure. A procedure expected to be implemented shortly will also allow the closing of refinancing loans on an automatic basis using a national index method for establishing the maximum loan discount a veteran may pay. This procedure will allow refinancing loans to be closed by eligible lenders using automatic procedures.

Mr. Chairman, I would like now to discuss our workloads in the areas of loan servicing and property acquisition.

Although we are still managing to properly reinstate the vast majority of VA loans reported to be in default, the percentage of defaults cured has been steadily declining each quarter for the past 2 years. Defaults reported for the year ending February 1983 increased by 7.8 percent. Currently over 94,000 outstanding loans are reported as being in default, which is a 20-percent increase over the same figure on February 28, 1982.

Unfortunately, VA paid over 18,000 claims in the year ending February 1983, an increase of 31 percent over the prior year. The increase in defaults and foreclosure activity during the last 2 years has resulted in a significant increase in the inventory of acquired property.

During fiscal 1982 the property inventory increased 50 percent over the level at the end of fiscal 1981. As of the end of March 1983, our inventory of acquired properties has grown to over 19,000 houses. A long period of high interest rates for new vendee loans resulted in sales at a rate of only 65 percent of the properties acquired during fiscal 1982 compared with 80 percent and 102 percent respectively for fiscal years 1981 and 1980.

In January of this year the VA instituted an interest rate reduction program in 14 of our field stations with large property inventories. The local offices have been authorized to sell at lower interest rates those properties which have been most difficult to sell.

Although this rate reduction program has been in effect only slightly more than 2 months, it appears to be providing a substantial stimulus to property sales.

For the months of February and March 1983 both months which were fully under the special program, there were 7,000 offers received at the 14 test stations. In November and December 1982, the 2 most recent months that were outside of the special program, there were only 4,400 offers received. The difference represents a 58-percent increase in offers for the first 2 complete months of the test.

During the year ending February 1983, the total number of loan guarantee field station employees increased from 1,860 to 1,905, a 2.4-percent increase in staffing. We expect to be able to continue to effectively perform the mission of the program with our currently authorized staffing levels.

Mr. Chairman, the benefits of the VA loan guaranty program are possible for America's veterans because the Congress established the direct and the guaranteed loan revolving funds that pay for the programs' expenses except administrative costs.

The loan guaranty revolving fund has been significantly depleted during the past 3 fiscal years. The unobligated balance in the fund has decreased from $285 million on September 30, 1980, to $74 million as of September 30, 1982.

To return capital to this fund, we sold $373 million in loans in fiscal 1982, and we have sold $642 million in loans to date in fiscal 1983. However, we estimate the loan guaranty revolving fund will have a balance of $100 million or less at the end of this fiscal year.

Likewise, the unobligated balance in the direct loan revolving fund has decreased from $473 million on September 30, 1980, to $367 million at the end of September 1982. This fund currently has an unobligated balance of $404 million, but the balance available

at the end of the year will depend on the need for fund transfers from this fund to the loan guarantee revolving fund.

Mr. Chairman, you requested that we present the agency's views on two legislative proposals currently before the subcommittee. The first measure I will discuss is H.R. 2505, a bill to permit substitution of the veterans housing loan entitlement when the veteran transferee is not an immediate transferee.[1]

A veterans' home loan entitlement may be restored when another veteran agrees to assume the outstanding loan and to substitute his or her VA entitlement for that of the original veteran.

The law provides, however, that the new veteran must be an immediate veteran transferee. H.R. 2505, Mr. Chairman, would eliminate the requirement that the veteran transferee be the immediate transferee. We see no logical reason to preclude substitution of entitlement merely because the assuming veteran is not an immediate transferee. Accordingly, Mr. Chairman, the Veterans' Administration supports enactment of 2505.

Mr. Chairman, your letter of March 28, 1983, inviting us to testify at this hearing requested our testimony on legislation which would provide financial relief to VA homeowners facing foreclosure. Since the VA has not had sufficient time to review this measure and formulate a position on the bill, we are unable to provide you with our views on that measure at this time. We will be preparing a written report on that bill which we will submit to the committee in the near future.

Mr. Chairman, this concludes my statement. I would be pleased to respond to any questions that you or the members of the committee may have.

[The prepared statement of Mr. O'Toole appears on p. 51.]

Mr. SHELBY. Thank you. The Chair first recognizes the gentleman from New Jersey, Mr. Smith?

Mr. CHRISTOPHER H. SMITH. Thank you, Mr. Chairman, and Mr. O'Toole, I want to thank you for your very fine testimony in giving us an update as to the status of the home loan program.

I just have a few questions. First, from your experience and the experience of the two gentlemen with you with the VA Loan Guaranty Service and Claim Section of the VA, are lending industries—is the lending industry showing forbearance in helping people to keep their homes?

Mr. O'TOOLE. I think, Congressman, our experience has been that in most cases the lenders have been very sympathetic to the plight of those veterans who are in default, and lenders are doing everything they can to keep those veterans in their houses, particularly if there is some possibility of curing that default or bringing that loan current in a reasonable time.

Mr. CHRISTOPHER H. SMITH. I note on pages 2 and 3 of your testimony that you speak of some of the innovations that the VA has implemented or is in the process of implementing to streamline its operation to provide better service. You note that the standards for approval of lenders authorized to underwrite the VA guaranteed loans on the automatic basis without VA reviewing the case prior to loan closing have been revised to increase lender participation.

---

[1] VA views on H.R. 2505 appear on p. 36.

How many new lenders have we been able to get into the program through this? Do we have any numbers on that?

Mr. O'TOOLE. I'd have to estimate and I could provide that information for you, but we probably added another 35 or 40 lenders in the last couple of months that we didn't have before.

Mr. CHRISTOPHER H. SMITH. Thank you. Mr. Chairman, can that be provided for the record?

Mr. SHELBY. You go right ahead.

Can you provide that to the members of the committee?

Mr. O'TOOLE. Yes, Mr. Chairman.

[Subsequently, the Veterans' Administration furnished the following:]

On November 23, 1982, the VA issued revised guidelines governing the approval of nonsupervised automatic lenders. Since that date 30 new applications for automatic authority have been received and 22 have been approved, an 8.1 percent increase in a 4-month period. In addition during this 4-month period, 29 lenders were approved for expansion of their automatic authority into new areas of the country.

Mr. CHRISTOPHER H. SMITH. You also note that a procedure is expected to be implemented shortly that would allow the closing of refinancing loans on the automatic basis using a national index. Could you give us an idea when that will be ready?

Mr. O'TOOLE. That procedure is going through the concurrence stage in the agency, and I would expect that that would be announced to the industry and to our field stations in the next 30 days or so.

Mr. CHRISTOPHER H. SMITH. The next 30 days.

One final question. You also note in supporting H.R. 2505 that there has been an increasing number of requests, and I noted that in my opening statement. Do we have any idea how many requests have been made to change this?

Mr. O'TOOLE. Congressman, I don't think we have firm information on that. We arrived at that conclusion based on the phone calls that we were getting in our field stations and just a feeling that this was a concern and a need that had to be addressed.

Mr. CHRISTOPHER H. SMITH. I yield back the balance of my time.

Mr. SHELBY. The Chair next recognizes the gentleman from Tennessee.

Mr. SUNDQUIST. Thank you, Mr. Chairman.

Mr. O'Toole, you said you've lowered the interest rate on those hard-to-sell houses?

Mr. O'TOOLE. Yes, sir.

Mr. SUNDQUIST. What is the rate that you have fixed in that instance?

Mr. O'TOOLE. In some areas we've lowered it to 11 percent and in some very difficult to sell areas it has been lowered to 10 percent.

Mr. SUNDQUIST. What was the result?

Mr. O'TOOLE. Well, as I have I indicated the increase in sales has been substantial.

Mr. SUNDQUIST. Is that rate low enough to move them?

Mr. O'TOOLE. Well, that's why we're calling it "a test program" to see if it is low enough to move them. We're going to evaluate that program to see if it is low enough and see what we'll have to do besides that.

Mr. SUNDQUIST. Thank you, Mr. Chairman.

Mr. SHELBY. The Chair recognizes the gentleman from Florida, Mr. Bilirakis.

Mr. BILIRAKIS. Mr. O'Toole, regarding H.R. 2505 and page 9, of your testimony, at the bottom of the page, where you talk about a veterans home loan entitlement may also be restored when another veteran agrees to assume the outstanding loan and to substitute, et cetera, et cetera. Is it from a practical standpoint—are they, whoever does the interviewing here, are they specifically requested or asked if they are willing to substitute their entitlement for the other veteran? I mean, how does that work in practice?

Mr. O'TOOLE. Well, in practice the original veteran purchaser is made aware in the information that they receive at the time the original loan is made that in selling a property they should consider release of liability and the possibility that another veteran could substitute their entitlement for theirs and get it restored. So what normally happens in practice is that when that veteran sells that house, since he's been made aware of that, he may indicate to the real estate agent, or the individual that he sells the house to, "Are you an eligible veteran and would you be willing to substitute your entitlement for mine?"

We've even seen instances where somebody, a veteran, will put that as a requirement on the——

Mr. BILIRAKIS. On the contract.

Mr. O'TOOLE [continuing]. On the contract or the listing of the property.

Mr. BILIRAKIS. What if the transferee is not a veteran? What if the immediate transferee is not a veteran and, of course, now we're talking about changing this law so that downstream somewhere there might be two or three transferees in the intervening time. How would something like that work? The original veteran may have moved to another location or whatever the case may be and doesn't really know the history.

In fact, you know, I am in that category. Quite frankly, I don't know what's happened regarding the home that I sold many years ago that I purchased as a veteran. What's the process there?

Mr. O'TOOLE. Well, right now the process, would be for that original veteran to keep track of the assumers and at some point come in contact with that person and say, "Would you be willing to substitute your entitlement for mine?"

Mr. BILIRAKIS. I can see that changing the law as per your request, and I commend the VA for that. It makes good sense. I just wonder how much practical value that would be under the circumstances, you know, in the real world?

Mr. O'TOOLE. Congressman, maybe I can comment. Most of the experience we've had with this is over a divorce situation where the transfer occurs from one spouse to the other and then a resale of the property occurs fairly quickly after that, so there's been a legal change in title, and—the veteran pretty much knows what's happening. That might clarify it.

Mr. BILIRAKIS. Yes. And those are circumstances.

The last question, sir, would be going to the fact that you haven't had enough time to review the measure regarding foreclosure relief. When your position is being furnished to us will we have an opportunity, Mr. Chairman, to question any of the representatives

of the Veterans' Administration regarding their position, whether it be in a formal meeting such as this, formal hearing, or whether it might be just an informal thing?

Mr. SHELBY. Yes. We don't have a formal hearing. We will have an informal hearing if the member from Florida requests it, where you will be able to confront them and question them. I think we should do that. You just tell me when.

Mr. BILIRAKIS. Thank you, Mr. Chairman. Thank you, Mr. O'Toole.

Mr. CHRISTOPHER H. SMITH. Will the gentleman yield?

Mr. BILIRAKIS. Yes, I would yield. I am finished, actually.

Mr. CHRISTOPHER H. SMITH. I just have one question of Mr. O'Toole.

In light of the increased workload in all areas from loan origination to resale of foreclosed properties, does the VA have sufficient personnel to meet existing and anticipated obligations?

Mr. O'TOOLE. I think the staffing levels that we currently have are adequate at this time to meet our timeliness standards and the needs of program participants.

We see a couple of things occurring which will be of assistance in that area and that's the number of refinancing loans as a percentage of all of our activity has declined in the last few months. As the large bulk of those high interest rate loans are refinanced we, of course, won't have to process those loans. That's a fairly easy process as it is.

Hopefully, as the economy recovers and employment increases, the amount of work that's necessary to service defaults and handle the inventory of houses will also decline. So, we're optimistic that we are going to be able to handle that workload.

Mr. CHRISTOPHER H. SMITH. I'm happy with your answer because you did note that 17 of the field stations reported out of line timeliness situation each month but I'm glad we're moving toward improving that with some of your innovations.

Thank you.

Mr. SHELBY. The Chair recognizes the gentleman from New Mexico, Mr. Richardson.

Mr. RICHARDSON. Thank you very much, Mr. Chairman. I want to commend you for holding these hearings. I am a co-sponsor of H.R. 2618. I would like to be on H.R. 2505 also. I guess you don't have a number yet for the pre-fab.

Mr. SHELBY. We put it in, I believe, just yesterday. It's H.R. 2664. Do you want to be added on that?

Mr. RICHARDSON. I'd like to be added.

Mr. SHELBY. The staff will take care of it.

Mr. RICHARDSON. I only wish I had some of these good ideas that you've had, Mr. Chairman.

Mr. SHELBY. I think it's a good staff.

Mr. RICHARDSON. Well, I want to commend you both for having this hearing and moving in this direction. You can count on my full support to get it to the full committee.

Mr. O'Toole, I'd like to ask several questions regarding manufactured housing and I guess my first question is why are real estate mortgage loans on manufactured homes not now guaranteed under the basic VA home loan guarantee program? What is the policy?

Mr. O'TOOLE. Well, Congressman, I think the basic answer would be the Congress passed a different authorizing legislation for what were previously called mobile home loans, probably because the financing arrangement is different for a mobile home loan that's considered personal property in most jurisdictions compared with real estate loans that are covered under the regular program.

Mr. RICHARDSON. Now, if the single family VA guarantee program is amended to cover real estate mortgage loans on manufactured homes, do you think there'd be a need to continue such authority under the VA manufactured home loan guarantee program? Would we still need to do it?

Mr. O'TOOLE. I think there would be as long as there are instances where those manufactured houses that are not permanently affixed to foundations and taxed as real estate are financed differently, and we really don't have much control over that. They are financed as personal property and I think there's a need for us to handle it differently.

Mr. RICHARDSON. Well, in this line, did you think that special legislation was necessary to permit the FHA to insure real estate mortgages on manufactured homes? Did you think it was necessary to have that?

Mr. O'TOOLE. The FHA?

Mr. RICHARDSON. Right.

Mr. O'TOOLE. Congressman, I don't know what legislation the FHA might have needed.

Mr. RICHARDSON. Well, my understanding was that this committee passed such legislation.

Mr. O'TOOLE. That affected the FHA, sir?

Mr. RICHARDSON. Right.

Mr. SHELBY. If the gentleman would yield, the gentleman might be referring, and I'm not trying to read his mind, because I'm not capable of it, of the bill that came out of the Banking Committee.

Mr. RICHARDSON. Yes, it was the Banking Committee. But didn't this committee have joint referral?

Mr. SHELBY. No.

Mr. RICHARDSON. OK.

Mr. SHELBY. That's why we're coming up with something else.

Mr. RICHARDSON. OK.

On page 4 of your testimony you stated that the VA instituted an interest rate reduction program in 14 field stations with large property inventories. Did such a field station exist in my State of New Mexico? Would you be aware of that?

Mr. O'TOOLE. I'm not aware of that, Congressman. I could certainly check that for you.

Mr. RICHARDSON. Could you check that for me?

Mr. O'TOOLE. Sure. I'd be happy to.

Mr. RICHARDSON. Let us know?

Mr. O'TOOLE. Sure.

[Subsequently, the Veterans' Administration furnished the following:]

No, New Mexico was not part of the test program. The interest rate reduction test program was designed to stimulate property sales in those areas where economic conditions have impacted most seriously on VA's marketing of its acquired properities. A major factor in selecting the participant field station was the size of their

acquired property inventories at the end of fiscal year 1982. The Albuquerque Regional Office had 16 properities in its inventory as of September 30, 1982. Consequently, it was not included in the test. The office currently has only 13 acquired properties on hand to sell as a result of mortgage foreclosures.

Mr. RICHARDSON. Would you have any statistics on the veteran default rate in the State of New Mexico?

Mr. O'TOOLE. We could get that for you also.

Mr. RICHARDSON. OK.

[Subsequently, the Veterans' Administration furnished the following:]

As of March 31, 1983, there were 142 defaults and claims pending for home and condominum loans in the State of New Mexico. There were also 118 defaults and claims pendings for manufactured home loans. Nationwide there were 94,678 home loans and 6,043 manfactured home loans in default or with claims pending. The percentage of defaults and claims pending compared to all loans outstanding for the entire nation was 2.46 percent. For New Mexico the percentage of defaults and claims pending compared to all loans outstanding was 1.08 percent. New Mexico continues to have one of the lower rates of home loans in default in the country.

Mr. RICHARDSON. Under existing law or existing policy does the VA have procedures for counseling veterans that are facing foreclosure?

Mr. O'TOOLE. Yes; that's one of the things that we do and we make an effort, and we require our field stations to have a personal contact with every veteran who is in serious default and facing foreclosure. The purpose of the servicing interview is to attempt to work out a repayment plan if at all possible with the lender so that the veteran can save the home.

Mr. SHELBY. Can we get the views of the Administration, if possible, on this bill so that we can have a markup by April 28. I know that's difficult at times.

Mr. O'TOOLE. We'll certainly try, Mr. Chairman.

Mr. SHELBY. Yes; try as hard as you can.

Earlier, on a question by my colleague from New Jersey, Mr. Smith, I believe he asked you about the field stations and so forth and personnel. In your answer to Mr. Smith, you said that you—you, meaning the VA—would be able to handle the workload with existing personnel. Will you not be losing personnel in fiscal year 1984 and won't the fact that you would be losing personnel have an adverse effect on your operations? Or will it? And if not, why not?

Mr. O'TOOLE. The employment in the field has increased a few percentage points over what it was a year ago. The 1984 budget, I think, includes a decrease in our employment of some 29 positions. That is based on our estimate of not only a decline in the workload of refinancing loans but an improvement in the economy to the point where those resources will not be needed as badly in the servicing of defaulted loans and in the managing of that high inventory of houses.

Mr. SHELBY. If this legislation, H.R. 2618, was enacted, would it be helpful in the loan servicing area to be able to afford relief to veterans, needy veterans, where the need is not self generated but is beyond their control, such as structural unemployment and everything like that?

Mr. O'TOOLE. Well, Mr. Chairman, without precluding the Administration's position on the legislation, personally, I can see some instances where such aid could be helpful to individuals. On the

other hand, I can see some—we've seen some instances, where such aid would just postpone the——

Mr. SHELBY. The inevitable?

Mr. O'TOOLE [continuing]. Inevitable, and the veteran would have a larger obligation than they had before. So, there are some pros and cons.

Mr. SHELBY. Well, by postponing it and you're obviously right that some things aren't going to work out, notwithstanding what we do, but it's my understanding that it costs a lot of money to foreclose and then renovate and resell houses. Is that correct? It costs VA money. For example, if you foreclosed on my home, you've got attorneys fees there, you've got advertising costs, you've got renovation, generally, of an existing property before you can put it on the market. Then you've got real estate commissions, you know, just all the added on costs.

Mr. O'TOOLE. Sure.

Mr. SHELBY. What is the average cost, if you have the figure, of foreclosing on a VA guaranteed home and then fixing it up—in other words, getting it sold?

Mr. O'TOOLE. If we include all the costs of that, the foreclosure cost and the claim amount to the lender and the management fees, and the real estate commission, and then, of course, we take off the price that we sell the property for, we have an average loss in the neighborhood of $9,000 per property.

Mr. SHELBY. That's a lot of money, isn't it?

Mr. O'TOOLE. Yes, sir.

Mr. SHELBY. OK.

Mr. BILIRAKIS. Mr. Chairman, would you yield a moment?

Mr. SHELBY. I'll yield to the gentleman from Florida.

Mr. BILIRAKIS. Is that $9,000—I realize it's an average cost—is that going to come out of the taxpayers' pockets, ultimately? What I mean is on a bottom line basis?

Mr. O'TOOLE. A portion of that loss would be charged back to the veteran purchaser or the obligor, as a debt.

Mr. BILIRAKIS. As a debt?

Mr. O'TOOLE. That's right.

Mr. SHELBY. Oftentimes that's not collectible, is it?

Mr. BILIRAKIS. What do we do with that debt? What do we do on a practical basis?

Mr. O'TOOLE. On a practical basis we attempt to collect it and the recovery, and I'd have to get this for you, is somewhere in the neighborhood of—within the neighborhood of 30 or 40 percent.

Mr. SHELBY. If I could reclaim my time.

Mr. BILIRAKIS. Yes. Thank you, sir.

Mr. SHELBY. That would be called a deficiency or something like that?

Mr. O'TOOLE. Yes.

Mr. SHELBY. Oftentimes that's not collectible, is it, because of the financial straits of the veteran? I know you attempt to collect it, but——

Mr. O'TOOLE. That's right.

Mr. SHELBY. And if it's not collected it's charged off and it's charged off, basically, to the Government, which is the taxpayers, is that right?

Mr. O'TOOLE. Yes.

Mr. SHELBY. OK.

Mr. O'TOOLE. That portion that's not collected.

Mr. SHELBY. But the fact of $9,000 is interesting, I think, to the gentlemen of the committee here.

Do you believe that a period of relief such as 6 months, retroactive, and 6 months prospective is reasonable and do you think that there should be a dollar ceiling on the amount of relief afforded?

Mr. O'TOOLE. Once again, without——

Mr. SHELBY. You're speaking not for the Administration, I know that.

Mr. O'TOOLE. There are some provisions in the bill that I think, are workable and certainly when you talk about a dollar cap, from a manager of the revolving fund it would appear that that's something that would be necessary.

Mr. SHELBY. Let me ask you a question about the revolving fund. We use this and I've read it and heard about it. What's the genesis of the revolving fund? Where did it come from and what perpetuates it?

Mr. KANE. Mr. Chairman, the Congress, in setting up the home loan program, established this revolving fund to give us an operating fund.

Mr. SHELBY. In other words, it is an appropriation that we in Congress or our predecessors, appropriated to the Veterans' Administration to manage this Federal guaranteed or VA guaranteed home loan fund, is that right?

Mr. KANE. Yes, sir, originally, and as I understand it——

Mr. SHELBY. Has it grown over the years?

Mr. KANE. It's been self-perpetuating.

Mr. SHELBY. Self-perpetuating. Do we continue to appropriate money to it or is money fed into it by the——

Mr. KANE. No; the operation of the program refurnishes itself.

Mr. SHELBY. It takes care of itself.

Do you believe that the Administrator of the Veterans' Administration should have discretion to make a determination on whether or not there is a reasonable chance that the veteran is going to be able to make good his loan before this relief is afforded? In other words, to review each case, because as you mentioned a few minutes ago, we know some of the bills are only postponing the inevitable. In other words, should there be some discretion left in there?

Mr. O'TOOLE. Yes, Mr. Chairman. I think there certainly should be.

Mr. SHELBY. OK.

If you were given these safeguards in legislation, would this be of help to you in the VA in managing the problem and trying to make the program that we in Congress want to work work?

Mr. O'TOOLE. Mr. Chairman, if the legislation is passed and becomes law, we'll make every effort to administer it the way the committee wants it to be administered.

Mr. SHELBY. One last question. On manufactured housing, we notice that you have the authority to cover conventional-built housing. This has been touched on earlier, under section 1810 of title 38, and also you have the authority under section 1819 to cover

manufactured housing. But that is it limited to mobile homes for a shorter period with higher interest rates.

Would it be helpful to the Veterans' Administration to have statutory authority to cover factory manufactured housing under provisions similar to conventional built housing?

Mr. O'TOOLE. Mr. Chairman, I'm not sure I understand your point.

Mr. SHELBY. Would it be helpful to have the authority, statutory authority that is, to cover factory-manufactured housing under provisions similar to conventional-built housing that you already have?

Mr. O'TOOLE. Well, I think we have that in a sense.

Mr. SHELBY. But you haven't really used it, have you?

Mr. O'TOOLE. Well, if the manufactured house is built in accordance with——

Mr. SHELBY. VA specs?

Mr. O'TOOLE. VA specs, and HUD engineering plans.

Mr. SHELBY. OK.

Mr. O'TOOLE. There's inspection at the site where the unit is being built.

Mr. SHELBY. OK.

Mr. O'TOOLE. The other criteria, of course, is how is it financed, and that's something else. That's what we were concerned about.

Mr. SHELBY. The Chair recognizes the gentleman from Texas, Mr. Bryant, for any questions or comments, if he has any.

Mr. BRYANT. No comments.

Mr. SHELBY. Thank you.

Mr. O'Toole, on behalf of the committee we appreciate you coming up and bringing members of your staff with you and hope that you will appear with us again and I'm sure we'll be calling on you for your advice and suggestions.

Mr. O'TOOLE. Thank you, Mr. Chairman.

Mr. SHELBY. Thank you for coming.

Mr. O'TOOLE. Thank you.

Mr. SHELBY. Our next panel, we have Mr. Willard Gourley, president, Northwestern Mortgage Corp., Charlotte, N.C., with the Mortgage Bankers Association, and Mr. Jerry Conners, president of Manufactured Housing Institute, accompanied by Mr. Harvey Weiner, counsel of the Coordinating Council on Manufactured Housing Finance. Will these gentlemen come up to the table, please?

You may feel free to summarize your statements and we will include them in the record in their entirety.

Without objection we will include the prepared remarks. Whoever wants to lead it off, Mr. Gourley is first on my list, but whatever he wants to do. Just orally sum up what you're saying because we have the benefit of your written testimony, and as briefly as possible because we've got some members that are going to have to leave. They have a conference they have to attend. You may proceed.

STATEMENT OF A PANEL OF WITNESSES: WILLARD GOURLEY, PRESIDENT, NORTHWESTERN MORTGAGE CORP., CHARLOTTE, N.C., AND MORTGAGE BANKERS ASSOCIATION; JERRY CONNORS, PRESIDENT, MANUFACTURED HOUSING INSTITUTE, ACCOMPANIED BY HARVEY WEINER, COUNSEL, COORDINATING COUNCIL ON MANUFACTURED HOUSING FINANCE

Mr. GOURLEY. Thank you, Mr. Chairman and members of the subcommittee. My name is Willard Gourley and I am president of Northwestern Mortgage Corp., Charlotte, N.C., and we are mortgage bankers. I am chairman of the legislative committee of the Mortgage Bankers Committee of America.

Accompanying me are Burton Wood, on my right, who is our legislative counsel, and Bill Cumberland on my left, who is MBA's general counsel.

We appreciate the fact that you will include our written statement as part of the record.[1]

MBA believes that the VA home loan guarantee program is an excellent one and that the VA has operated the program well. It is always a pleasure to have the opportunity to tell this subcommittee the high regard we have for the fine personnel at the VA. Over the years they have demonstrated a deep concern for veterans and at the same time have been most fair with other participants in the program.

While the loan guarantee program is a good one, it can be strengthened. We believe that Congress should provide that the interest rate on VA guaranteed loans may be freely negotiated. We also urge that the new user fee imposed on veteran buyers be designated by the VA for use in operating the loan guarantee program rather than remitted to the Treasury as general revenues.

MBA supports the proposal being considered which would reinstate a veterans loan guarantee entitlement when a veteran's mortgage is assumed by another veteran with such entitlement. We also support including mobile homes under both the mobile home and the regular home loan guarantee program.

With regard to foreclosure relief, MBA believes that mortgage delinquencies and foreclosures will soon begin to recede on a national level. Speaking for our company, clearly this record has already started in that direction, and thus, we question the need for Federal financial relief measures at this time.

However, we do have some specific suggestions with respect to H.R. 2618, the measure you have introduced, Mr. Chairman, directed toward assisting veteran homeowners experiencing difficulty with their mortage payment.

We believe that the delinquency period required by the bill before assistance may be offered should be reduced from 6 months to 3 months. That's our normal period of time. After 90 days is when we move into another category.

Another suggestion, and an important one, we feel, is that in aiding deserving veterans, some consideration must be given for delinquent second mortgages. That creates another problem. The bill should clarify that assistance payments should cover all unpaid

[1] See p. 67.

monthly payments which are due, not only the past due ones, and also should be explicit that all aspects of a due payment are included. This is all aspects in addition to principal and interest. We have taxes, insurance, and other assessments.

The veteran should be indebted to the United States only for the amount of assistance received and not for the full amount advanced and escrowed on the veteran's account.

Another is that the lien of the Administrator securing repayment should be a second lien, junior to the existing first mortage lien. I do have a question personally about how it would relate to a second mortage, if one exists, but it certainly should be inferior to our first lien.

Careful evaluation should be given to the adverse impacts on the direct loan revolving fund which the relief program may have, and certainly Mr. O'Toole has spoken to the issue on how much money is in that account.

We very much appreciate the opportunity to appear before this subcommittee today and will be happy to answer any questions you may have.

Mr. SHELBY. First of all, I want to tell you we appreciate your suggestions. That's why we asked you to appear here and we'll certainly take them into consideration as we move the bill.

Mr. GOURLEY. Thank you.

Mr. SHELBY. The Chair recognizes the gentleman from New Jersey, Mr. Smith? For any questions or comments?

Mr. CHRISTOPHER H. SMITH. Just one comment.

You have a very exhaustive statement and unfortunately, Mr. Gourley, I just received it this morning and I haven't had a chance to read it and digest it to come up with some questions.

But I am encouraged by your statement that mortage delinquencies and foreclosures will soon begin to recede, which may bring into question the need for the legislation, but just as a fallback position I'm one of those who believes the legislation is still necessary.

Could you give us some numericals, an idea on the numbers of what has been the rate of decline versus, say, last year?

Mr. GOURLEY. Well, we're a great quarterly collector of data, and so far as MBA is concerned, we're just getting our March 31 data together, and certainly December 31, 1982, was one of the tougher quarters.

Our company has already furnished the data and we are a very small company compared to many of the companies in MBA, but our percentage of delinquencies dropped. The overall delinquency of our loans, 30-days delinquent or more, dropped from some 5½ percent at the end of December to 4.09 percent at the end of this first quarter.

Obviously, this is not necessarily true in many other areas of the country where there is much higher unemployment. So that on an area-by-area basis there would be not that kind of success ratio. But an improving housing market has had a tremendous effect on it. It helps bail out the problem loans and clears up veterans' delinquencies, and others, probably, when they are able to sell a house with lower interest rates available today. The housing market im-

provement itself, as well as a lowering of the unemployment rate have helped.

Mr. CHRISTOPHER H. SMITH. I want to thank you and your associates for taking your time to come here before the committee.

Mr. SHELBY. The gentleman from Florida, Mr. Bilirakis?

Mr. BILIRAKIS. Thank you, Mr. Chairman. Mr. Gourley, does your very lengthy written testimony, which I'm really looking forward to reading, contain reasons why you think the 6 months ought to be reduced to 3 months? I realize it's another category. I mean, I'm involved in banking to some degree.

Mr. GOURLEY. Yes.

Mr. BILIRAKIS. And I understand about the other categories.

Mr. GOURLEY. To give you a very brief statement——

Mr. BILIRAKIS. But there must be more practical reasons why you think it ought to be reduced to 3 months rather than just the banking categories, if you will, the delinquency categories.

Mr. GOURLEY. Well, normally we have identified the problem at the end of 3 months. The problem is only worsening by going out to 6. If in fact the reason is unemployment or under employment, that reason will already be known, and letting it get further delinquent does not help anything at all—if the problem has been identified.

If it does not exist at the end of 3 months we should be taking other corrective action anyway, so all we're saying that there's no sense in prolonging the inevitable. If the problem is what we are trying to do, what you are suggesting, would be because of unemployment or under employment, then as soon as that can be identified, the sooner we should get at curing the problem.

We, as an industry are very proud of the fact that we do work very hard to keep loans out of foreclosure. We work with veterans, as Mr. O'Toole noted, and every other borrower to make certain that we do not have to foreclose the loan. But it does become a very expensive matter with mortgage bankers and others, in particular the owners and holders of mortages, to delay making that decision that we need to take corrective action.

Mr. BILIRAKIS. If, in fact, it does go on into foreclosure, would that, again, realistically cost the mortgage bankers any money? Would you actually lose money on it?

Mr. GOURLEY. Well, mortgage bankers lose money, yes, because we sell most of our loans today and put them in "Ginny Mae" mortgage-backed securities [GNMA-MBS's]. We have to advance to the holders of these securities the principal and interest payments that are due, irrespective of collecting them. When we have an advance outstanding it starts costing us money and then as that accumulates, it costs us money. It does not cost the security holder. We are, in fact, substituting for the veteran or any other delinquent borrower and so the longer we sit there advancing money, yes, sir, the more money it costs us.

Now, when it goes to foreclosure, most foreclosure costs are ultimately recovered from the VA or through the sale of the property, depending on what takes place, so far as we are concerned, I mean the owner of the mortage is concerned, the principal loss is negligible, but there are some other costs that may not be 100 percent recaptured so that, yes, there are both problems there.

But delinquencies cost us money and foreclosures cost us some. Foreclosures cost us more than one way. We have to spend a lot of time to bring this about, so that keeping it from going into foreclosure is worth a lot of effort, but it would certainly make a difference for us.

Mr. BILIRAKIS. Thank you, Mr. Gourley. I have nothing further.

Mr. SHELBY. The gentleman from Texas, Mr. Bryant?

Mr. BRYANT. How many delinquent loans are there at present, Mr. Gourley, the VA-backed loans that we're talking about?

Mr. GOURLEY. Well, there are a number of different categories. In looking at our statistics at the end of the year, we had some 2½ million loans, I think, that we reported. Not all of our mortgage bankers give us all their figures. We had 2½ million VA loans, 1 percent of which were 90 days or more delinquent.

Mr. BRYANT. One percent?

Mr. GOURLEY. Yes, sir.

Mr. SHELBY. And how many would that be?

Mr. GOURLEY. 25,000.

Mr. SHELBY. Will the gentleman yield to me?

Mr. BRYANT. Yes.

Mr. SHELBY. Yes. Well, we had heard a figure that there were about 93,000 delinquent mortgages.

Mr. GOURLEY. That's the reason I said as a percentage. We don't service all the loans. Two things. No. 1, we don't service all the VA loans.

Mr. SHELBY. Sure.

Mr. GOURLEY. Although we do have a substantial—we originated substantial parts of them. And also, in our reporting, we get a representative reporting from all of our services. We don't have 100 percent. So, I was giving it really as 2½ million, 1 percent of those. I think that is very representative of probably what the total statistical data would show.

Mr. SHELBY. Mr. Connors, do you have some testimony?

STATEMENT OF JERRY CONNORS

Mr. CONNORS. Yes, Mr. Chairman. Thank you.

I am Jerry Connors, president of the Manufactured Housing Institute. I am here to support H.R. 2664, legislation that would authorize the Veterans' Administration to guarantee a real property home loan on a manufactured home and lot, where the home is on a permanent foundation. I speak on behalf of MHI and the Coordinating Council on Manufactured Housing Finance.

Accompanying me today is our Washington counsel, Harvey E. Weiner.

The Coordinating Council is comprised of the three major manufactured housing industry trade associations. They are MHI, the national association, representing approximately 80 corporations which manufacture homes, and some 300 supplier firms which furnish components, services, and financing to the industry, the Western Manufactured Housing Institute, representing manufacturers and suppliers in the Western United States, and the National Manufactured Housing Federation, representing 41 State and regional associations of manufacturers, retailers, and park operators. Al-

though there are many ways to manufacture a home, the manufactured housing I speak of today is what has been historically known as the mobile home. Because of vast improvements in quality, size, aesthetics, and construction techniques, the distinction between the so-called mobile home and traditional site-built home has diminished.

I have some pictures here which I would like to provide for the use of the subcommittee.

Mr. SHELBY. Without objection.

Mr. CONNORS. Thank you.

Mr. SHELBY. Just give them to staff.

Mr. CONNORS. OK, thank you.

Few manufactured homes are ever moved by their owners once they are located at their original site. Manufactured homes are built according to the national manufactured home construction and safety standards, a uniform national preemptive building code developed and enforced by the Department of Housing and Urban Development.

The HUD manufactured housing code insures that all manufactured homes are safe, durable, and long lasting. In 1970, recognizing that this less expensive form of housing could provide the veteran with homeownership opportunities he otherwise might not realize, Congress authorized the Veterans' Administration to guarantee loans on manufactured homes and home-and-lot combinations. Since that time there have been over $1 billion worth of manufactured home loans guaranteed by the VA. In fact, the VA has assisted over 67,000 veterans in purchasing manufactured homes since the program began.

This subcommittee can take great pride in the major role it has played in bringing the affordable housing to veterans. I'd also like to congratulate the VA for its 11 millionth loan which recently took place and also join with Mr. Gourley in complimenting the VA staff on its work.

As I mentioned earlier, the distinction between manufactured housing and site-built housing is narrow. A recently issued regulation by HUD stated that, and I will not read that. It is already contained in my statement.

Such mortages now are eligible for purchase by the two major national secondary mortgage market institutions, the Federal National Mortgage Association, and the Federal Home Loan Mortgage Corporation. Congress itself has acknowledged the emerging role of the industry by changing the term "mobile home" to "manufactured home" in Federal law and literature.

We recommend that the VA home loan guarantee program be permitted to accommodate these changes in the marketplace, so that a veteran may use his benefits to purchase a manufactured home and land, financed with a long-term real estate mortgage where the home is permanently affixed to a lot by a permanent foundation and is considered to be real estate by the local jurisdictions.

We just recently have received a copy of the subcommittee's bill which amends section 1810 to include manufactured homes. We have not, however, had an opportunity to examine the proposed provisions of the bill closely. After we have reviewed it in greater

detail we would appreciate the opportunity to file a supplemental statement with the subcommittee and to work with the staff to perfect the wording of the legislation, if needed, to best meet the needs of the veteran.

We urge the subcommittee to adopt legislation which expressly would authorize the VA to guarantee manufactured home mortgage loans under section 1810, the basic home loan guarantee program which provides 30-year loan terms, where the home is permanently affixed to a site-built permanent foundation and eligible for real estate-type financing.

We also recommend that the subcommittee make clear the continuing availability of section 1819 financing for shorter term loans on real estate manufactured homes. We respectfully call your attention to a recent change made in this area by HUD. On April 6, 1983, by regulation, the FHA extended its basic single-family insuring program to purchasers of manufactured homes, attached by a permanent foundation to a developed lot. Such homes also must meet other criteria as prescribed by the Secretary of HUD and the FHA regulations.

In sum, Mr. Chairman, we urge the subcommittee to adopt legislation expressly permitting the guarantee of such loans under the 30-year section 1810 program while preserving the option of guarantee under section 1819 as well.

We appreciate the interest of the subcommittee in manufactured housing for veterans and the opportunity to present the views of the Coordinating Council on Manufactured Housing Finance on this matter. We would be pleased to answer any of your questions.

Mr. SHELBY. Thank you. Mr. Smith, do you have any questions?

Mr. CHRISTOPHER H. SMITH. Yes, Mr. Chairman. I do have one question. In your written testimony you note that veterans and lenders in States where the classification of a manufactured home and land transaction is ambiguous as to its real property versus personal property status, you would not know for certain whether such loans were, in fact, guaranteed.

You don't indicate how many States would be in that situation. Do you know?

Mr. CONNORS. I don't have that information right now. We'd be glad to provide it for the record, however.

Mr. CHRISTOPHER H. SMITH. I would appreciate that. Mr. Chairman, I would ask that it be part of the record.

Mr. SHELBY. Without objection, we will ask that you submit it and it will be made part of the permanent record and be furnished to members of the committee and staff.[1]

Mr. CONNORS. Thank you.

Mr. SHELBY. The gentleman from Florida?

Mr. BILIRAKIS. Well, very quickly a question comes to mind. In your experience, sir, and referring to conventional loans now, not VA loans necessarily, because apparently that has not been very much a part of the picture, what is the financing experience regarding manufactured homes versus the conventional home attached to the real estate? In other words, you know, in terms of difficulty of acquiring the financing and what not?

---

[1] See p. 115.

Mr. CONNORS. Well, traditionally mobile homes have been financed more as personal property. What we're finding ourselves in right now is a situation where because of the improvements in construction techniques and because of the HUD code, because of the greater number of manufactured homes that are being attached to real property on permanent foundations, we're in a transitional period where more conventional financing is extending out over a longer loan, longer terms, et cetera.

Mr. BILIRAKIS. In other words, longer terms, equivalent interest rates?

Mr. CONNORS. Yes.

Mr. BILIRAKIS. All right. Thank you, sir. Thank you, Mr. Chairman.

Mr. SHELBY. The gentleman from Texas, Mr. Bryant, do you have any questions?

Mr. BRYANT. No questions.

Mr. SHELBY. We appreciate all of you appearing here before us and we'll look forward to receiving the information that you said you'd furnish us.

Mr. CONNORS. Thank you, Mr. Chairman.

Mr. GOURLEY. Thank you.

Mr. SHELBY. Thank you.

Our next panel will be Mr. John Heilman with the Disabled American Veterans, Mr. Emil Naschinski, Assistant Director, National Economic Commission, Mr. Paul Egan, Deputy Director, National Legislative Committee of the American Legion, Mr. James Magill, Special Assistant, National Legislative Service, Veterans of Foreign Wars, and Lt. Col. David Passamaneck, Ret., National Legislative Director, AMVETS.

Gentlemen, if you all would come up to the table. Your written testimony will be submitted to the record, without objection, and made part thereof, and if you would sum up your position, whoever wants to lead it off, Mr. Heilman, since you are first on the list, as quickly as possible, because there are a number of people that are pushed for time here. Thank you.

STATEMENT OF A PANEL OF WITNESSES: JOHN F. HEILMAN, NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS; EMIL W. NASCHINSKI, ASSISTANT DIRECTOR, NATIONAL ECONOMIC COMMISSION, THE AMERICAN LEGION; PAUL S. EGAN, DEPUTY DIRECTOR, NATIONAL LEGISLATIVE COMMISSION, THE AMERICAN LEGION; JAMES N. MAGILL, SPECIAL ASSISTANT, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS; LT. COL. DAVID J. PASSAMANECK, USA (RET.), NATIONAL LEGISLATIVE DIRECTOR, AMVETS

Mr. HEILMAN. Yes, sir. Good morning, Mr. Chairman. I can be quite brief.

The DAV does support favorable action on H.R. 2505 which would permit the substitution of a veterans loan entitlement in those cases where the veteran assuming the loan is not the immediate transferee. Obviously, it has a beneficial effect of restoring the guarantee entitlement of the original veteran purchaser and we certainly think that's a worthy objective.

With regard to H.R. 2618, we have not been mandated by our membership on this issue. However, I'm sure if they were polled the vast majority of DAV members would very much be supportive of foreclosure assistance in cases of arrears in mortgage payments.

We commend the subcommittee for addressing this issue and certainly have no objection to action on it by the subcommittee.

With regard to H.R. 2664, again, our convention delegates have not addressed this issue. We certainly have no objection to manufactured housing being treated the same way as basic conventional housing.

Mr. SHELBY. We appreciate your appearing before us. Mr. Naschinski?

Mr. EGAN. Mr. Chairman, Emil Naschinski is going to summarize our remarks but I would like to make just one comment. Included in our summary are a couple of proposals which are not before this committee for consideration this morning. However, we would look forward to an opportunity to work with you and your staff on these in the near future.

Mr. SHELBY. We'll look forward to doing that.

STATEMENT OF EMIL NASCHINSKI

Mr. NASCHINSKI. Mr. Chairman and distinguished members of the subcommittee, the American Legion would like to thank you for allowing us this time to present our views on both Veterans' Administration home loan guarantee program and on proposed legislation that would provide financial relief to those homeowners who are facing foreclosure on their VA mortgages.

In view of the present economy and the record high levels of unemployment that exist among veterans, especially those of the Vietnam era, it would appear that additional reforms in the VA program are necessary if it is to remain viable. Presently our country is faced with a recession that has caused unprecedented levels of unemployment. This, of course, has had a dramatic impact on the rates of delinquency and foreclosure.

By the end of 1982 2.18 percent of all mortgages were 60 days or more delinquent. This is by far the highest percentage on the past decade. Additionally, it was reported that foreclosure rates had reached the highest level since the 1960's and that the number of actual foreclosures was the highest since the depression.

According to information that we have recently been supplied—that has recently been supplied to us by the Veterans' Administration, the number of VA home loans dropped by 86.4 percent between the beginning of 1980 and the end of 1982. During that same period the number of foreclosures rose by an astonishing 63.4 percent. With this in mind, Mr. Chairman, we heartily support H.R. 2618 and urge its prompt enactment.

In addition to addressing the problem of foreclosure, the American Legion would like for this subcommittee to examine three other initiatives which we feel would greatly enhance the VA home loan program. Not only would these initiatives make home loans available to a wider range of veterans but they would cost the Government little or nothing to implement.

In 1981 Congress amended the National Housing Act to allow buyer brokering in connection with FHA home loans. Under this system the purchaser has the option of hiring a real estate agent to search and negotiate for a residence at the lowest possible price. The broker works exclusively for the buyer, usually charges a set dollar amount. Generally, the broker's fee ranges from approximately $1,200 to $2,000. The use of a buyer/broker can literally save the home buyer thousands of dollars in price, settlement costs, and other charges.

The second initiative which we support, which is supported by both the American Legion and the Veterans' Administration would require an amendment to title 38, U.S.C. This amendment would require that substitution of the word subsequent for the word immediate be made under section 1802. Simply stated, this would restore the veteran's home loan entitlement when the veteran transferee is not the immediate transferee.

The third initiative that we would support could possibly open the market for a whole new type of home. Presently the VA has no provision for the purchase or renovation of rehab homes. We feel that a veteran should be granted a loan for the purchase and renovation of a home that does not meet code requirements, provided that he or she can have the dwelling brought up to code within a reasonable amount of time.

The American Legion foresees a great demand for this type of housing and this provision would offer the veteran one more option in the quest for affordable housing.

Mr. Chairman, that concludes our statement.

[The prepared statement of Mr. Naschinski appears on p. 133.]

Mr. SHELBY. Mr. Magill?

Mr. MAGILL. Yes, sir.

Mr. SHELBY. Go ahead.

STATEMENT OF JIM MAGILL

Mr. MAGILL. Mr. Chairman, thank you for the privilege of appearing before this subcommittee to present the views of the Veterans of Foreign Wars with respect to the VA's home loan guarantee program. Because of recent economic conditions and high levels of unemployment, many veterans are being faced with foreclosure. We believe that all efforts should be made to help the veteran remain in his home.

In view of this, we certainly have no objection to the provisions of H.R. 2618. We also have no objection to H.R. 2505, to correct the technicality referred to in our statement.

Finally, Mr. Chairman, we believe manufactured housing is a realistic and viable alternative to many veterans wanting to purchase a detached home and we believe it is time loans for this type of housing enjoy the same terms as loans for conventionally-constructed homes.

This concludes my statement. I'll be happy to answer any questions you may have.

Mr. SHELBY. Colonel Passamaneck?

STATEMENT OF COL. DAVID PASSAMANECK

Colonel PASSAMANECK. Thank you, Mr. Chairman.

The American Veterans of World War II, Korea, and Vietnam appreciate this opportunity to present its views on the proposed legislation relating to the VA Home Loan Program. We favor very strongly the enactment of H.R. 2618. We believe it offers needed relief from some of the harsher consequences of the current recession for our veteran homeowners, who have been subjected to a greater foreclosure rate than other Government guaranteed mortgagors and the general population.

AMVETS also favors legislation to restore loan guarantee eligibility to veterans where an original obligation is subsequently assumed by an eligible, non-immediate veteran transferee. We believe H.R. 2505, amending section 1802 of title 38, United States Code, will accomplish this purpose and we favor its enactment.

We also favor legislation to equalize eligibility limits for manufactured housing according to the intent of H.R. 2664.

Additionally, Mr. Chairman, AMVETS believes that consideration should be given by this subcommittee to a program for the direct relief of disabled veterans who pay rent rather than mortgage payments and who are over 2 months in arrears and unemployed. We would suggest a renters' loan program for those drawing 30 percent or more compensation with VA debt collection recourse in the event of default, although we do not suggest this program as an amendment to H.R. 2618. Obviously, to do so would delay the enactment of that legislation and we feel that it is urgently needed and should go forth without delay.

This concludes my testimony and I'm prepared to answer any questions.

Mr. SHELBY. I would just like to pose one question. Several of you mentioned that the funds now going to the U.S. Treasury as a result of the one-half of 1 percent user fee currently imposed on veterans originating home loans should be used toward the mortgage foreclosure relief program.

Most of you know this fee is in effect as a result of fiscal year 1983 reconciliation instructions. Do you have any comments on that?

Mr. EGAN. Mr. Chairman, our recommendation that that one-half of 1 percent user fee be applied to a foreclosure relief measure was in the interest of economy. It is actually subordinated to our interest in the overriding need for the relief legislation, regardless of where the funding comes from.

Mr. SHELBY. I yield to the gentleman from Florida.

Mr. BILIRAKIS. Yes, that is your recommendation, meaning what, the American Legion?

Mr. EGAN. That's correct.

Mr. BILIRAKIS. The American Legion. All right. How does that gibe with the other organizations at the table, the VFW, the AMVETS, et cetera?

Mr. MAGILL. We brought this up in our statement, and we believe that if the VA is going to generate these funds, the money should be used by the VA and this would be an avenue for it to be utilized.

Mr. BILIRAKIS. Thank you.

Mr. HEILMAN. The DAV made no such recommendation.

Mr. BILIRAKIS. Does anybody else have a comment on it?

Colonel PASSAMANECK. We'd want to get into examining it a little more closely before taking a position. Offhand, I can't see anything objectionable to the legion's position but I would prefer to take a closer look at it.

Mr. SHELBY. The Chair recognizes the gentleman from New Jersey.

Mr. CHRISTOPHER H. SMITH. Thank you, Mr. Chairman. Mr. Naschinski, you didn't indicate as to why the buyer/broker system is not used. Is it you just don't know?

Mr. NASCHINSKI. To my understanding I really do not understand what the VA's objection is to this particular system.

Mr. CHRISTOPHER H. SMITH. I don't know either, and Mr. Chairman, I'd like to ask that we contact, as a committee, the VA and ask that they submit in writing their response as to why that system is not utilized.

Mr. SHELBY. We will do that, without objection. The staff will do it.[1]

Mr. BILIRAKIS. Would the gentleman yield?

Mr. SHELBY. Yes.

Mr. BILIRAKIS. Would this, the buyer/brokers' commission, ranging from $1,500 to $2,000, whatever that figure is, would that come out of the buyers' pocket?

Mr. EGAN. It certainly would.

Mr. BILIRAKIS. It would not be part of the usual loan closing fees that under the law is required out of the seller's funds?

Mr. EGAN. If a veteran buyer were to use a realtor the seller would pay a commission.

Mr. BILIRAKIS. Yes, I realize that.

Mr. EGAN. We feel that there isn't any real good reason why, if the buyer sought to use a buyer/broker, why that fee couldn't be absorbed in the overall cost of the mortgage. We feel that the more important aspect of this is that if you had an agent representing the interests of the buyer, then you can't help but exert, however small, some downward pressure on the bottom line price of a house.

Mr. BILIRAKIS. We probably have the potential conflict of a broker receiving a fee from the buyer and then, of course, if chosing a particular home, if you will, for that buyer, they would then be receiving a fee also from the seller, the selling commission, and this certainly is a very great potential for and probably is a conflict of interest, and that may be part of the problem.

But I would agree with Mr. Smith that it's something that we ought to probably look into.

Mr. EGAN. It's my understanding that one of the reasons given by the VA for opposing this particular concept was that it wasn't needed simply because there weren't that many veterans who were in the market for a house that was so unique that they would need an agent to find such a dwelling.

---

[1] See p. 65.

But the fact is that if the buyer/broker were available to the veteran it would exert a downward pressure on the price simply because the buyer's interest rather than the seller's interest would be paramount. That's the principle we're alluding to.

Mr. BILIRAKIS. I'm not sure that that's really a practical advantage because, again, they will be collecting. That person would be collecting a commission on both ends and I am not sure—their commission is based on the selling price—so I'm not sure they would bring down the price.

Mr. EGAN. Well, there would be a conflict of interest if the buyer/broker was also acting as the realtor for the seller. Very definitely. We wouldn't anticipate that. In fact, we would expect some prohibition against that.

I mean with just using a realtor in the present time, it's entirely possible for the seller to increase the price of the house by the cost of the commission and then have the realtor ask the buyer to pay something in addition to that, which is striking at the veteran twice.

Mr. BILIRAKIS. Right. And that can practically happen. I'm sure you can see that. That may be the reason that VA opposes, but we certainly ought to find out more about it.

I'm always curious, Mr. Chairman, this is an American Legion position and it's well taken and it's something that should be looked into. But I would always feel better about it all if it were a unified position, if you will, of all of the veterans' groups. Not knowing how the AMVETS feel about it, or the VFW, or the Military Order of the Purple Heart, if you will, makes me uneasy.

Mr. SHELBY. If the gentleman from Florida would yield, the organizations at the table that have not stated a position, we are interested in it, as he said, and if you could furnish your position of your organization in writing to the committee and to the members, we will disseminate. I think that you would be of benefit. If you differ from the American Legion, we want to know and want to know why.

Mr. EGAN. The American Legion wants to know as well. [Laughter.]

Mr. SHELBY. Right. I agree with that.

The gentleman from Texas, Mr. Bryant.

Mr. BRYANT. I have no questions, Mr. Chairman.

Mr. SHELBY. Gentlemen, I appreciate on behalf of the committee all of you appearing and we will look forward to the other information.

Our next panel is Mr. Horace Small, deputy director Philadelphia Unemployment Project and Mr. Robert Anderson, Mon-Valley Unemployment Commission.

Are these two gentlemen here and, if they are, would they come up?

Gentlemen, your written statements will be submitted to the record without objection and will be made part thereof and you would just sum up your positions, I think you have a sympathetic audience in the members of the committee. We are concerned about a lot of the things that you are concerned about. You had the benefit of some other testimony this morning. If you could sum it

up as briefly as possible. But as I said earlier, we have some members that are being pushed to go some other meetings.

You may proceed.

STATEMENT OF HORACE SMALL, DEPUTY DIRECTOR, PHILADELPHIA UNEMPLOYMENT PROJECT

Mr. SMALL. Mr. Chairman, if I could, I would like to read some pieces of my testimony and it's not going to take any more than about 5 minutes.

Mr. SHELBY. Go ahead, sir.

Mr. SMALL. Gentlemen, on behalf of the Philadelphia Unemployment Project and the thousands of distressed homeowners throughout the Nation, I thank you for the opportunity to make a statement concerning the serious problem of mortgage foreclosures under the VA home loan program.

The Philadelphia Unemployment Project is an organization of unemployed workers in the Delaware Valley of Pennsylvania, which has for the past 8 years been devoted to meeting the needs of the unemployed.

Over the past year PUP became increasingly aware that many unemployed individuals were facing loss of their homes through foreclosure sales.

In the fall of 1982 PUP began operating a well publicized mortgage foreclosure hotline and formed a foreclosure crisis committee which holds regular meetings of homeowners facing foreclosure due to financial hardship. Many of these homeowners facing foreclosure had VA guaranteed loans.

It became immediately apparent to us that mortgage foreclosures of homeowners is frightenly high. In Philadelphia we have seen for all mortgages a 22-percent increase in foreclosure judgments listed for sale between 1980 and 1982.

Since 1978 we are seeing chapter 13 bankruptcies, a major means of delaying sheriff's sale, a rise of from 354 a year to 3,786 a year in 1982. Mortgage Bankers' Association statistics show that in Pennsylvania the rate of mortgages rose from 0.5 percent in June 1980 to 0.9 percent in September 1982. The VA figures show a similar increase.

For example, in Pennsylvania, the rate of VA guaranteed loans in foreclosure rose from 0.90 percent in June 1980 to 1.66 percent in September 1982.

Nationally, the number of VA guaranteed loans in foreclosure rose from 0.38 percent in June 1980 to 0.71 percent in September 1982.

Unfortunately, there is no immediate end in sight to the foreclosure crisis. Even Reagan administration officials project national unemployment rates to be extremely high for all of 1983 as well as 1984. While the national unemployment has dropped slightly, the Pennsylvania rate continues to grow. Workers continue to exhaust unemployment benefits as well as their savings. We will continue to see an even larger number of Pennsylvania families being forced from their properties.

As more and more homeowners with VA guaranteed loans came into our office, we began to examine the policies and practices of

the VA in assisting homeowners with VA guaranteed loans who were facing foreclosure due to financial hardship.

We immediately discovered that the VA did nothing to assist homeowners who were facing foreclosure due to circumstances beyond their control. We were shocked to learn that when a homeowner in financial distress called the VA, the VA informed them that there was nothing they could do.

The homeowner was told to contact his mortgage company or go to their nearest welfare office. If the homeowner was unemployed, the VA simply told them to get a job and then they might be able to do something for them.

In essence, homeowners were told that the VA would not assist them, and they were placed at the mercy of the mortgage company to prevent the foreclosure of their property.

We reacted strongly to this so-called assistance that was being provided by the VA. We soon discovered that while the VA had the authority to provide broad relief to VA homeowners facing foreclosure of their property, they, in fact, refused to do it.

The VA has ample authority to assist VA homeowners to prevent them from losing their homes through mortgage foreclosure. For example, the VA has available a procedure in their regulations called refunding. Under this procedure, the VA can buy the mortgage from the mortgage company and become the mortgage holder.

The VA then can enter into a reduced payment plan with the veteran. We discovered this procedure to be a well-kept secret. I have enclosed a copy of the refunding procedures to my testimony.[1] Although the procedures state that virtually every case should be reviewed by the VA for refunding before foreclosure is authorized, the homeowner is never informed of the availability of the program, or even that the VA is considering refunding the loan.

In the procedures, there are four criteria listed for refunding. They consist of the following: (1) Refunding will be in the best interests of the Veterans' Administration; (2) That the fault was not willful; (3) The homeowner is desirous of retaining his property; and (4) The homeowner is deserving of assistance.

It is obvious that for the VA to make an informed decision as to whether or not refunding should be granted, information from the homeowner must be obtained. How can the VA determine whether the default was willful unless they allow the homeowner to explain the reasons for the default.

Despite this the VA refuses to tell the homeowner of the availability of refunding or give the homeowner any opportunity any information regarding the possibility of refunding a loan.

The result of all this is what one would expect. Despite the large number of VA loans that have been foreclosed across the country, the number of loans that have been refunded by the VA is extremely low. In 1980 the VA refunded 162 loans nationally. In 1981, the number was 188. In 1982, the VA refunded a total of 115 loans nationally.

Last year the Philadelphia regional office of the Veterans' Administration, which covers 40 counties in Pennsylvania, the entire State of Delaware as well, refunded a total of five loans.

---

[1] See p. 149.

The VA's failure to properly examine refunding possibilities not only adversely affects the homeowners, but also has a negative economic impact for the VA insurance fund. In virtually every case where refunding is denied and a foreclosure takes place, the VA is forced to pay off the mortgage claim plus substantial attorneys' fees and costs.

In addition they must acquire the property and continue to spend money to manage the property. In many instances, the property depreciates in value and the VA continues to lose money when the property is finally sold. We are informed that the average loss on the property from foreclosure is approximately $9,000. If the VA accepted refunding of the mortgage, there is a good likelihood they would lose nothing.

The financial risk to the VA under the refunding program is minimal compared to the possible strong economic gains that can take place if the VA accepts the funding and the homeowner reinstates the loan.

We also discovered that while the VA had a published policy of requiring mortgage companies to accept payments where 50 percent or more of the payment is offered, the mortgage companies virtually ignored this regulation. The VA regional office in Philadelphia admitted that mortgage companies did ignore this regulation, but to this date has done absolutely nothing to ensure its enforcement.

PUP began meeting with the Philadelphia regional office to try to try to have them change their policies of assisting veterans. Initially, we were able to get the office to change their policy regarding what type of assistance they would provide to homeowners facing foreclosure.

The VA told us in January of 1983 that they would, in the case of a veteran who is experiencing financial difficulty due to circumstances beyond his control, there is resistance on the part of the mortgage lender to accept a reasonable resolution, the VA will intercede in his behalf, including refunding of the loan, if necessary.

Under this policy, we were able to resolve for several of our members the serious foreclosure problems they were facing. However, it became clear to us that unless a person came into our office and we took that person down to the VA and formed a picket line, VA homeowners were continually being told that nothing could be done for them.

Recently, we met with national officials of the Veterans' Administration in Washington and we described the serious problems that we saw regarding the assistance to homeowners facing foreclosure. Although we obtained some general policy agreements that the VA would intercede with mortgage holders and would recommend reduced payment plans where the situation warrants, we were unable to develop a specific procedure in which their policy would be implemented.

On April 13, 1983, we again met with national officials of the VA in the Philadelphia regional office. At that time, we presented to the VA a detailed procedure on how the VA could provide assist-

ance to VA homeowners. We have attached a copy of these procedures to the testimony.[1]

Unless the VA immediately implements a procedure which is made known to the veteran and to VA employees, any policy will have little effect. This is exactly the case in Philadelphia. Although 4 months ago we were told a new policy was created, the reality is that this policy would only apply to people who come to our organization or other organizations who put strong pressure on the VA to get relief.

I would like to take the time to read these procedures, however, due to the time constraints and it's already in the record.

We have found that the problems that we face with the VA are not unique to our area. We are members of the National Unemployed Network, which consists of similar organizations across the Nation. Through this network we have found that the VA consistently exhibits a great reluctance in utilizing their services or programs to keep homeowners in their property.

We have found that the only time homeowners get action is when 100 people demonstrate at a local office with TV cameras and the local press. Without that public pressure, people go to the VA by themselves and leave depressed and despondent.

In Gary, Ind., for example, the regional office services the northernmost part of Indiana. The Gary office does not even have a mortgage counselor. Instead troubled homeowners are given a toll free number or are told to drive to the VA office in Indianapolis, a drive of 3 hours or more, depending upon where they live.

Imagine, if you will, the bitterness one feels to go that far to be told nothing could be done for them without a job.

Throughout the United States, in Chicago, Oakland, Newark, Baltimore, Minneapolis, and other cities, the problems we face in Philadelphia are shared by all, and that is the unwillingness of the VA to act on behalf of the homeowner unless they are forced to by demonstrations and sit-ins.

We urge this committee to take strong actions so that veterans facing financial hardship due to circumstances beyond their control no longer lose their property. We urge that unless the VA immediately adopts the attached procedures as binding regulations that this committee adopt legislation that would require the VA to file such procedures.

Our organization would be glad to work with you in helping you to draft this legislation. Finally, we would like to mention that we have been informed that the VA is about to implement a moratorium on evictions from properties that have been foreclosed that have a VA guaranteed loan.

We commend the VA for such action and believe that it is a beginning step in trying to resolve the overall problem. However, we strongly urge that the problem should not wait until the homeowner is about to be evicted after a sheriff's sale has taken place.

Under our proposal, the VA would intercede at the very beginning of the process when the homeowner begins to face foreclosure. This would not only save thousands of dollars in attorney's fees

[1] See p. 150.

and costs, but it would also save the prized possession of the veteran, his home.

We thank you for the opportunity to testify before you.

[The prepared statement of Mr. Small appears on p. 143.]

Mr. SHELBY. We appreciate your testimony. Thank you.

Mr. David Carter. We appreciate your appearing before us. We have your written testimony and if you have some oral remarks you may proceed.

STATEMENT OF DAVID CARTER, MON-VALLEY UNEMPLOYMENT COMMISSION

Mr. CARTER. Thank you, sir. I will forgo my testimony since you already have it. I would like to emphasize that the unemployment in Pittsburgh, the problem in Pittsburgh, is drastic. The only way the unemployment level is going down in Pittsburgh is people falling off of benefits. They run out of their regular benefits. If they are no longer extended, they are no longer counted.

Mr. SHELBY. What is the unemployment in Pittsburgh now?

Mr. CARTER. Current figures indicate 14.4 percent I am not positive on the point.

Mr. SHELBY. OK. Go ahead.

Mr. CARTER. It is a lot higher than that. If the "For Sale" signs going up and down the streets of Pittsburgh were American flags, it would look like the Fourth of July every day. It is frightening.

I am just a working person. I work for a railroad and I would just as soon be out working on trains instead of being here. Two years ago I never thought I would see the inside of this building.

I can only say that we need the help, and given the VA refunding program where they are charging 125 and 150 percent of the previous mortgage to an employed person, you might as well just rip them right out of the house right now.

We have run into this—I am dealing with one right now. We are going to lose it. The payment was originally $300 and some, the man became unemployed. His wife became unemployed. The bank made an arrangement with them to pay $586 when their income was $480. Those kinds of arrangements no one can live with. We do need some kind of relief from that and I have spelled out a plan for relief in my testimony.

I have a couple of other notes here. It seems like the VA's famous statement, the most popular statement that they make to anyone is, "Sorry. We can't help you." If you call them for help or you go and see them, that is what you get. It's only been through a lot of battling that we have finally got them to come around and they are starting to come around and respond to the public.

I noticed in one of the testimonies that you had an $8,400 limit on one of the bills. I am not quite familiar with the bills, but I would like to comment on this.

To set a set dollar amount as a cap does not take into account the wide variation in pricing of homes and payments. The VA and the Government look like a giant to most working people. It's just an institution that you can't move or sway.

The Mon-Valley Unemployed Committee is trying to take a toothpick to pick at the toe of that giant and we just hope we can

make enough stabs at it that we can get you to move to help the American public, to help the working people.

Thank you.

Mr. SHELBY. We appreciate your appearing, both of you. Mr. Carter, again, your entire statement will be included in the record.

[The prepared statement of Mr. Carter appears on p. 152.]

Mr. SHELBY. We, and the members of the committee too, believe that something should be done to prevent veterans from losing their homes. That's why we held this hearing today and that's why a lot of us have introduced this legislation.

I appreciate you coming down. It's not easy to come from your respective homes to Washington and to testify here and we are going to try to move this legislation.

Thank you again.

Mr. SMALL. Mr. Chairman, might I just add one thing? When we met with the VA we met with Mr. O'Toole. I would just like to commend Mr. O'Toole and his staff for having come down to Philadelphia and meeting with us and opening up a dialog. I can tell you that throughout the country that there are thousands of unemployed homeowners that feel that there is a dialog established right now, and people are willing to work together to change the situation.

Mr. SHELBY. Well, we are concerned and we are trying to do something about it and that's why you are here today.

Thank you both.

Mr. SMALL. Thank you.

Mr. CARTER. Thank you.

Mr. BILIRAKIS. Mr. Chairman, if you would yield.

Mr. SHELBY. The gentleman from Florida, Mr. Bilirakis, has a question. I would be glad to yield.

Mr. BILIRAKIS. Just very quickly. I would like to just commend both of these—one is called a project and the other is called a commission—I would like to commend you for gathering together to try to help each other and to do something about these problems.

I get the impression you are not always looking for Government to do it for you. Certainly you want to get some help from Government, but you are also trying to help yourselves.

I commend you both. I represent an area in Florida now, but I am originally from Clarendon, Pa., which is right across the river from McKeesport and I would wager to say that the unemployment rate there is considerably higher than 14 percent.

Mr. CARTER. It is.

Mr. BILIRAKIS. I know in Johnstown it's 20-plus. The four criteria that Mr. Small has pointed out here are something that have been a part of the law for many years, sir and it's not something that has just been part of the law the last 2 years and I would like to commend that to your attention.

Would you both say that these three bills that we are planning to introduce and hopefully pass would be helpful toward the big problem, toward your problems?

Mr. SMALL. Sir, I am not really all that familiar, unfortunately, with the three pieces of legislation. Today was the first I have heard of them. My gut feeling is that at this point any legislation that is going to keep people in their homes is necessary. I can't

give you a critical comment on the legislation until after our organization has reviewed it. I am not really familiar with it at all.

Mr. BILIRAKIS. Well, my impression is that based on other testimony—I believe even Mr. Carter mentioned that it would be helpful and I am happy to hear you say that you see much improvement in the VA. I personally am very happy with what I see with our Administrator and with Mr. O'Toole and with some of the other VA people. They are all trying to address the problem. Certainly Congress is addressing the problem and I am very pleased to be a part of that.

I thank you for coming.

Thank you, Mr. Chairman.

Mr. SHELBY. This will conclude our hearings.

Thank you, gentlemen.

Mr. SMALL. Thank you, Mr. Chairman.

Mr. CARTER. Thank you, Mr. Chairman.

[Whereupon, at 10:50 a.m., on April 21, 1983, the subcommittee was adjourned.]

APPENDIX

98TH CONGRESS
1ST SESSION

H. R. 2505

To amend title 38, United States Code, to permit substitution of a veteran's housing loan entitlement when the veteran-transferee is not an immediate transferee.

IN THE HOUSE OF REPRESENTATIVES

APRIL 12, 1983

Mr. SHELBY (by request) introduced the following bill; which was referred to the Committee on Veterans' Affairs

A BILL

To amend title 38, United States Code, to permit substitution of a veteran's housing loan entitlement when the veteran-transferee is not an immediate transferee.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 1802(b)(2) of title 38, United States Code, is amended by striking out "an immediate" and inserting in lieu thereof "a".

[No. 2]

COMMITTEE ON VETERANS' AFFAIRS, HOUSE OF REPRESENTATIVES

Office of the Administrator of Veterans Affairs

Washington, D.C. 20420

Veterans Administration

MAR 25 1993

Honorable Thomas P. O'Neill, Jr.
Speaker of the House of Representatives
Washington, D. C. 20515

Dear Mr. Speaker:

Enclosed is a draft bill to permit substitution of a veteran's housing loan entitlement when the veteran-transferee is not an immediate transferee. I request that this measure be introduced and promptly enacted.

The Servicemen's Readjustment Act of 1944 originally granted a veteran $2,000 of loan guaranty entitlement. No provision was made for a veteran to regain previously-used entitlement. The Housing Act of 1950 [Pub. L. No. 475, 81st Cong., 2d Sess., § 301(a), 64 Stat. 48, 74 (1950)] amended the law to permit the Administrator to restore a veteran's home loan entitlement if the property was destroyed or "disposed of because of . . . compelling reasons devoid of fault on the part of the veteran . . . ."

In 1974, the Congress recognized "the fact that we live in a highly mobile society and also that many veterans desire or find the need for a different or larger house for personal reasons." S. Rep. No. 1344, 93d Cong., 2d Sess. 10 (1974). Accordingly, the Congress greatly expanded the circumstances under which previously-used home loan entitlement could be restored when it enacted the Veterans Housing Act of 1974 [Pub. L. No. 93-569, § 3, 88 Stat. 1863 (1974)].

At present, section 1802(b) of title 38, United States Code, permits home loan entitlement to be restored when either of two conditions are met. Under the first method, the property which secured the prior loan must have been disposed of by the veteran or destroyed by fire or natural hazard, and the prior loan must have been paid in full. If the Administrator has suffered a loss on such a loan, that loss must have been paid in full.

A veteran's home loan entitlement may also be restored when another veteran agrees to assume the outstanding loan and to substitute his or her VA home loan entitlement for that of the original veteran. The new veteran must be found by VA to be fully qualified for the loan. The law provides, however, that the new veteran must be "an immediate veteran-transferee."

2.

Honorable Thomas P. O'Neill, Jr.

We are proposing to eliminate the requirement that the veteran-transferee be an "immediate" transferee.

The sale of a home with the purchaser assuming the existing mortgage loan is becoming more common. The fact that VA guaranteed loans are freely assumable is an important feature of this type of financing. The substitution of entitlement feature now in the law has enabled veterans to take advantage of the assumability feature of the VA loan as well as to benefit by being able to obtain a new home with VA financing. Loans are often assumed by two or more successive purchasers, and an increasing number of requests are being received for substitution of entitlement where the veteran assuming the loan is not an immediate transferee of the original veteran. Another fact pattern that VA is seeing with increasing frequency involves a marital breakup. A home purchased by a veteran and the veteran's spouse may be awarded to the spouse in a divorce. Some time after the divorce, the former spouse sells the property to a veteran on an assumption. Since the new veteran is not the original veteran's immediate transferee, restoration of the first veteran's home loan entitlement is not legally possible. We see no logical reason to preclude substitution of entitlement merely because the assuming veteran is not an "immediate" transferee.

Enactment of this proposal will have no significant budget impact.

The Office of Management and Budget advises that there is no objection to submission of the draft bill to the Congress from the standpoint of the Administration's program.

Sincerely,

HARRY N. WALTERS
Administrator

Enclosure

A BILL

To amend title 38, United States Code, to permit substitution of a veteran's housing loan entitlement when the veteran-transferee is not an immediate transferee.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 1802(b)(2) of title 38, United States Code, is amended by striking out "an immediate" and inserting in lieu thereof "a".

I

98TH CONGRESS
1ST SESSION

H. R. 2618

To amend chapter 37 of title 38, United States Code, to authorize the Administrator of Veterans' Affairs to provide mortgage assistance to veterans with loans guaranteed by the Veterans' Administration in order to avoid foreclosure of such loans.

IN THE HOUSE OF REPRESENTATIVES

APRIL 19, 1983

Mr. SHELBY (for himself, Mr. MONTGOMERY, Mr. SMITH of New Jersey, Mr. EDGAR, Mr. EVANS of Illinois, Mr. RICHARDSON) introduced the following bill; which was referred to the Committee on Veterans' Affairs

---

A BILL

To amend chapter 37 of title 38, United States Code, to authorize the Administrator of Veterans' Affairs to provide mortgage assistance to veterans with loans guaranteed by the Veterans' Administration in order to avoid foreclosure of such loans.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 1816 of title 38, United States Code, is amended by adding at the end thereof the following new subsection:

"(c)(1) The Administrator may, at the Administrator's option, provide assistance under this subsection to a temporarily unemployed veteran homeowner (1) who is at least six

months delinquent in the payments on the veteran's primary loan, and (2) has a reasonable prospect (as determined by the Administrator) of being able to resume full payments on the primary loan within six months after receiving assistance under this subsection.

"(2) For the purposes of this subsection:

"(A) The term 'temporarily unemployed veteran homeowner' means a veteran who (i) owns a dwelling which the veteran occupies as the veteran's home and which currently secures a primary loan, and (ii) is unemployed or has had a substantial reduction in household income (as defined in regulations issued by the Administrator) through no fault on the part of the veteran.

"(B) The term 'primary loan' means a housing loan previously guaranteed by the Administrator under section 1810 or 1819 of this title which is secured by the dwelling which is currently occupied by the veteran as the veteran's home.

"(C) The term 'veteran' includes the surviving spouse of a deceased veteran if the surviving spouse was a coobligor under the primary loan.

"(3)(A) Assistance under this subsection shall be in the form of an advance to the holder of the primary loan. The holder shall first apply the advance to the amount past due

under the primary loan as of the date of the advance. Any remaining amount of the advance shall be retained by the holder and applied to future payments unpaid (in whole or in part) on the date the payment becomes due.

"(B) The Administrator may make more than one advance on behalf of a particular veteran, but the total of all advances made on behalf of a particular veteran under this subsection may not exceed $8,400.

"(4)(A) Any amount advanced under this subsection on behalf of a veteran shall be a debt owing to the United States by the veteran. Any such debt shall bear interest at the rate specified by the Administrator for loans guaranteed under section 1810(a)(1) of this title as of the date the advance is made or at the rate on the primary loan, whichever is less.

"(B) The advance shall be secured by a lien on the property securing the primary loan and by such other security as the Administrator may consider appropriate.

"(C) The veteran shall execute an agreement, in such form as the Administrator shall prescribe, to repay the advance not later than fifty-four months after the advance is made.

"(5) If the Administrator determines a veteran has sufficient income or other resources to do so, the Administrator may require the veteran to make a partial payment on the

primary loan during the period while the holder is applying the advance to payments becoming due.

"(6) Notwithstanding any other law, the Administrator may employ attorneys to initiate action in State court to collect an advance under this subsection on which the veteran is in default.

"(7) If after all advances made to a veteran under this subsection have been applied to payments on the primary loan of the veteran the veteran defaults in the payment of the primary loan, the holder of the primary loan shall precede as specified in subsection (a) of this section. The amount payable by the Administrator under the guaranty on the primary loan shall not be reduced as a result of the holder having previously received from the Administrator an advance under this subsection on behalf of the veteran.

"(8) Notwithstanding any provision of law (including any provision of an appropriation Act) not enacted expressly in limitation of this paragraph, advances under this subsection shall be made from the Direct Loan Revolving Fund under section 1823 of this title. Receipts from repayments of such advances shall be deposited into the Treasury of the United States to the credit of such fund.

"(9) The Administrator's decisions regarding assistance under this subsection, including whether or not to grant such assistance and the terms and conditions under which such

assistance is approved or disapproved, shall be final and conclusive and shall not be subject to judicial review.

"(10) The Administrator may not make an advance under this subsection after the end of the two-year period beginning on the effective date of this subsection.".

SEC. 2. This Act shall take effect at the end of the sixty day period beginning on the date of the enactment of this Act.

[No. 25]

COMMITTEE ON VETERANS' AFFAIRS, HOUSE OF REPRESENTATIVES

Office of the Administrator of Veterans Affairs

Washington, D.C. 20420

Veterans Administration

APR 28 1983

Honorable G. V. "Sonny" Montgomery
Chairman, Committee on Veterans' Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This will respond to your request for a report by the Veterans Administration on H.R. 2618, 98th Congress, a bill "To amend chapter 37 of title 38, United States Code, to authorize the Administrator of Veterans' Affairs to provide mortgage assistance to veterans with loans guaranteed by the Veterans' Administration in order to avoid foreclosure of such loans."

For the reasons stated below, the Administration strongly opposes enactment of H.R. 2618.

The bill proposes to add a new subsection (c) to section 1816 of title 38 which would grant the Administrator discretionary authority to assist certain veteran homeowners who are in temporary financial distress.

The assistance under H.R. 2618 could be provided to a veteran who currently owns and occupies a home which secures a VA guaranteed loan. The veteran must be unemployed or have suffered a substantial reduction in household income. The veteran's current VA loan (referred to as the "primary loan" in the bill) must be at least 6 months in default, but the veteran must have a reasonable prospect of resuming full payments on the primary loan within 6 months.

A surviving spouse of a deceased veteran would also be eligible for assistance under this bill if such surviving spouse was a co-obligor on the primary loan.

The bill would authorize the Administrator to make advances totaling not more than $8,400 on behalf of a veteran to the holder of the veteran's current VA home loan. The holder of the primary loan would use this advance to bring the primary loan current. Any remaining amount of the advance would be retained by the holder to be applied each month to future loan payments, if necessary. The bill appears to envision that VA would, when feasible, provide a holder with sufficient funds to bring the loan current, plus additional funds necessary to make six new monthly payments. When possible,

the veteran would be expected to make partial payments during this initial period, with the VA's advance covering the remainder of the payments due.

Amounts advanced by VA would be a debt owing to the United States by the veteran. This debt will accrue interest at the rate in effect at the time of the advance for VA loans to purchase homes, or the rate on the primary loan, whichever is less. The advance will be secured by a lien on the property securing the primary loan. The veteran would be required to repay the advance within 54 months from the date of the advance. Assuming the advance covered six new monthly payments, the veteran would therefore have 4 years following completion of this assistance to repay the debt. In the event a veteran defaulted in his or her obligation to repay this advance, VA would be authorized to employ attorneys to institute collection action in State courts.

Funds for these advances would come from the Direct loan revolving fund. Amounts repaid would be returned to that fund.

Decisions of the Administrator regarding granting assistance under H.R. 2618 would be exempt from judicial review.

H.R. 2618 would take effect 60 days following enactment. Advances under this measure could be made only for 2 years following the effective date.

When a VA guaranteed loan is reported as being in default, VA makes every reasonable effort to work with the veteran and holder to prevent foreclosure when possible. The most recent economic indicators reveal that a new Federal assistance program is not warranted. Further, establishing a program to assist veterans whose home loans are in default would set an undesirable precedent for providing Federal assistance to other similarly situated individuals or groups.

If, despite the Administration's opposition to this measure it should receive favorable committee action, we would suggest two technical changes to the bill. Paragraph (3)(B) of the new subsection (c) proposed by H.R. 2618 permits VA to make more than one advance on behalf of a particular veteran. Other provisions of the bill key repayment terms to the time

of "the advance." The assistance program would be easier to administer if all advances were repaid at one interest rate and with one repayment term. Accordingly, we suggest that "first" be inserted immediately before "advance" in paragraph (4)(A), and that "last" be inserted immediately before "advance is made" in paragraph (4)(C).

We estimate enactment of H.R. 2618 would result in a 5-year net savings of approximately $14.5 million. The estimated cost per year is as follows:

FY	($000) Loan Guaranty Revolving Fund	($000) Direct Loan Revolving Fund	($000) Total
1984	$-62,530	$12,740	$-49,790
1985	-39,180	10,220	-28,960
1986	26,460	-5,040	21,420
1987	26,460	-5,040	21,420
1988	26,460	-5,040	21,420
Total	$-22,330	$ 7,840	$-14,490

We have been advised by the Office of Management and Budget that there is no objection to the submission of this report to your Committee and that enactment of H.R. 2618 would not be in accord with the program of the President.

Sincerely,

for HARRY N. WALTERS
Administrator

I

98TH CONGRESS
1ST SESSION

H. R. 2664

To amend title 38, United States Code, to expand the availability of loans guaranteed by the Veterans' Administration for the purchase of manufactured homes that are permanently affixed to a lot.

IN THE HOUSE OF REPRESENTATIVES

APRIL 20, 1983

Mr. SHELBY introduced the following bill; which was referred to the Committee on Veterans' Affairs

---

A BILL

To amend title 38, United States Code, to expand the availability of loans guaranteed by the Veterans' Administration for the purchase of manufactured homes that are permanently affixed to a lot.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 1810 of title 38, United States Code, is amended—

(1) by inserting after subsection (a)(8) the following new paragraph:

"(9)(A)(i) To purchase a manufactured home to be permanently affixed on a lot that is owned by the veteran.

"(ii) To purchase a manufactured home and a lot on which the home will be permanently affixed.

"(B)(i) To refinance in accordance with subsection (e) of this section (other than paragraph (1)(E) of such subsection) an existing loan guaranteed, insured, or made under this chapter that is secured by a manufactured home permanently affixed on a lot that is owned by the veteran.

"(ii) To refinance in accordance with section 1819(e) of this title an existing loan that was made for the purchase of, and that is secured by, a manufactured home that is permanently affixed to a lot and to purchase the lot on which the manufactured home is affixed."; and

(2) by adding at the end the following new subsection:

"(f) For a loan to be guaranteed for the purpose specified in clause (A)(ii) or (B)(ii) of subsection (a)(9) of this section, the purchase of (or the refinancing of a loan secured by) the manufactured home and the lot for that home shall be considered as one loan and must comply with such other cri-

teria as may be prescribed by the Administrator in regulations.".

(b) Section 1819(a) of such title is amended—

(1) by striking out "Notwithstanding any other provision of this chapter, any" in paragraph (1) and inserting in lieu thereof "Except as provided in paragraph (6) of this subsection, a";

(2) by inserting "or section 1810(a)(9)(B)(ii) of this title" in paragraph (5) after "paragraph (1)(G) of this subsection" both places it appears; and

(3) by adding at the end the following new paragraph:

"(6) A loan for the purpose described in section 1810(a)(9) of this title may be guaranteed under this section.".

(c) Section 1[illegible] such title is amended—

(1) by [illegible] "or (8)" in clause (A) and inserting in lieu thereof ", (8), or (9)(B)(i)"; and

(2) by inserting "1810(a)(9)(B)(ii) or" after "section".

SEC. 2. The amendments made by this Act shall take effect on October 1, 1983.

[No. 24]

COMMITTEE ON VETERANS' AFFAIRS, HOUSE OF REPRESENTATIVES

Office of the
Administrator
of Veterans Affairs

Washington DC 20420

Veterans
Administration

APRIL 27 1983

Honorable G. V. "Sonny" Montgomery
Chairman, Committee on Veterans' Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This will respond to your request for a report by the Veterans Administration on H.R. 2664, 98th Congress, a bill "To amend title 38, United States Code, to expand the availability of loans guaranteed by the Veterans' Administration for the purchase of manufactured homes that are permanently affixed to a lot."

For the reasons stated below, the Veterans Administration favors enactment of H.R. 2664.

Under current law, a loan to purchase a "home" is guaranteed for up to 60 percent of the loan amount, not to exceed $27,500. The maturity of such loan may be up to 30 years and 32 days. A loan to purchase a manufactured home, including a lot for such manufactured home, is guaranteed under section 1819 of title 38, and is subject to different terms. For example, the guaranty is for 50 percent of the loan amount, up to a maximum guaranty of $20,000. The loan term may not exceed 20 years and 32 days in the case of a single-wide manufactured home plus lot, or 25 years and 32 days in the case of a double-wide unit plus lot. The interest rate set by the Administrator for a manufactured home loan is generally higher than for a conventionally built home loan.

H.R. 2664 proposes for VA to guarantee a loan to purchase a manufactured home that is permanently affixed to the lot in the same manner in which a loan for a conventionally built home is guaranteed under section 1810 of title 38.

VA supports the concept behind H.R. 2664. In certain states a manufactured home which is permanently affixed to the realty is treated as real property rather than personal property. Some manufactured homes are durable enough to last well beyond the 30-year term for a loan to purchase a conventionally built home, and will retain sufficient value to adequately secure the loan. In such instances it appears

Honorable G. V. "Sonny" Montgomery

reasonable to treat the loan in the same manner as other loans under section 1810. Loans guaranteed under H.R. 2664 would be subject to all the terms, conditions, and limitations currently contained in the VA Regulations pertaining to real estate loans guaranteed under section 1810.

VA would recommend that the new section 1810(a)(9), to be added under subsection (a)(1) of the first section of the bill, be amended by inserting at the end a new clause (C) as follows:

> "(C) A loan may not be guaranteed under this paragraph unless the manufactured home purchased, after being permanently affixed to the lot, is considered to be real property under the laws of the state where it is located."

We would further note three techinical corrections. We believe the reference to section 1819(e) in the new section 1810(a)(9)(B)(ii), added by subsection (a)(1) of the first section of the bill, is in error, since section 1819(e) does not specifically pertain to refinancing loans. In addition, we note that subsection (c) of the first section of the bill proposes to amend section 1903(c)(3) of title 38. We believe the section being amended should be 1803(c)(3). Finally, subsection (c)(2) of the first section of the bill proposes to insert certain language after the word "section" in what we believe should be section 1803(c)(3) of title 38. The word "section" appears several times within section 1803(c)(3), and we believe that the proposed addition does not belong each place "section" appears.

VA estimates that the costs associated with H.R. 2664 would be nominal.

Advice has been received from the Office of Management and Budget that there is no objection to the presentation of this report on H.R. 2664 from the standpoint of the Administration's program.

Sincerely,

Everett Hoge

HARRY N. WALTERS
Administrator

Deputy Administrator For

STATEMENT OF ROBERT M. O'TOOLE
DIRECTOR LOAN GUARANTY SERVICE
VETERANS ADMINISTRATION
BEFORE
SUBCOMMITTEE ON HOUSING
AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES
APRIL 21, 1983

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to appear before you this morning to discuss the operation of the Veterans Administration's housing program, and to present the views of the VA on a measure pending before this committee. I have with me today Raymond L. Brodie, Assistant Director for Loan Management, and James P. Kane, Assistant General Counsel.

Mr. Chairman, the VA Loan Program has previously had high workloads in one area or another, such as loan origination or loan servicing. Today, however, the program for the first time faces high workloads in all areas from loan origination to resale of foreclosed properties.

Improvements in the Nation's economy are being reflected in a general moderation of interest rates. This has permitted VA to

2.

reduce the interest rate on guaranteed home loans from 16.5 percent in January 1982 to the current 12 percent, which has been in effect since November 1982. This interest rate reduction has been accompanied by a surge in home purchases and a corresponding increase in the so-called front end of the VA home loan program. During the 6-month period from September 1981 to February 1982, VA issued 71,408 certificates of reasonable value and 34,564 certificates of commitment to guarantee loans. During the comparable period ending February 1983, the number of Certificates of Reasonable Value issued increased 216 percent to 225,826, and certificates of commitment increased 203 percent to 104,797. If interest rates remain steady, VA loan volume can be expected to remain at current levels or increase slightly.

In October 1980, Mr. Chairman, the Congress enacted Pub. L. No. 96-385 which permits a veteran who obtained a VA guaranteed home loan at a high rate of interest to refinance that loan with a new VA loan at a lower interest rate. More than 235,000 veterans obtained VA home loans bearing interest rates varying from 13 percent to 17.5 percent. During Fiscal Year 1982, VA processed only 8,401 refinancing loans. During the first 5 months of Fiscal Year 1983, VA processed more than 42,000 applications for refinancing loans. We estimate that approximately two-thirds of the recent refinancing loan applications were for rate-reduction loans.

Mr. Chairman, VA has set timeliness objectives for our field stations. These standards call for VA to issue Certificates of

3.

Reasonable Value within 15 calendar days and Certificates of Commitment within 8 calendar days of receipt of the application. Due in part to increased workloads, during the 6-month period ending February 1983, an average of 17 field stations reported out-of-line timeliness situations each month.

A number of innovations have therefore been introduced, Mr. Chairman, to improve productivity of field stations. For example, standards for approval of lenders authorized to underwrite VA guaranteed loans on the "automatic basis" without VA reviewing the case prior to loan closing have been revised to increase lender participation in this program. Approved automatic lenders also must now underwrite at least 50 percent of their cases using the automatic procedures. A procedure expected to be implemented shortly will also allow the closing of refinancng loans on the automatic basis using a national index method for establishing the maximum loan discount a veteran may pay. This procedure, when implemented, will allow refinancing loans, including interest rate reduction loans, to be closed by eligible lenders using the automatic procedures. We will continue to streamline and improve processing procedures to allow for approval of GI loan applications in a manner which is quick and efficient while still protecting the interests of the Government.

Mr. Chairman, I would now like to discuss our workloads in the areas of loan servicing and property acquisition. Although we are still managing to properly reinstate the vast majority of VA loans reported as being in default, the percentage of loans cured

4.

has been steadily declining each quarter for the past 2 years. Defaults reported for the year ending February 1983 increased by 7.8 percent from the previous year to 160,785. Currently, 94,969 outstanding loans are reported as being in default, which is a 20 percent increase over defaults pending on February 28, 1982. During Calendar Year 1982, 88.2 percent of the loans reported as being in default were brought current. Unfortunately, with the increase in defaults and the decrease in cures, VA paid 18,395 claims in the year ending February 28, 1983, an increase of 31 percent over the 14,028 claims paid during the prior year.

The increase in defaults and foreclosure activity during the last 2 years has resulted in a significant increase in the inventory of acquired properties and the corresponding workload increase in property management. During Fiscal Year 1982, the property inventory increased 50 percent over the level at the end of Fiscal Year 1981, increasing from 11,515 to 17,269. As of the end of March 1983, our inventory of acquired properties had grown to 19,334. The long period of high interest rates for new VA vendee loans resulted in sales at a rate of only 65 percent of the properties acquired during Fiscal Year 1982, compared with 80 percent and 102 percent, respectively, for Fiscal Years 1981 and 1980.

High interest rates are the primary obstacle to increasing VA property sales activity. In January of this year, the VA instituted an interest rate reduction program in 14 field stations with large property inventories. The local offices have been authorized to

5.

sell at lower interest rates those properties which have been most difficult to sell.

Although this rate reduction program has been in effect only slightly more than two months, it appears to be providing a substantial stimulus to property sales. It is not yet possible to determine the precise impact of the program. During the first quarter of Calendar Year 1983, however, there were 2,475 sales in the 14 field stations under the program compared to 2,252 in the last quarter of Calendar Year 1982. This represents a 10 percent increase. If the first quarter of Calendar Year 1982 is compared to the same quarter in Calendar Year 1983, sales increased from 1,465 to 2,475, or a 69 percent increase.

Perhaps a more accurate indication of the positive impact that the program is having on sales is the volume of offers to purchase which have been received. For the months of February and March of 1983, both months of which were wholly under the special program, there were 7,030 offers received at the 14 test stations. In November and December 1982, the most recent 2 months that were outside of the special program, there were only 4,462 offers received. The difference represents a 58 percent increase in offers for the first 2 complete months of the test.

During the year ending February 1983, the total number of Loan Guaranty field station employees increased from 1,860 to 1,905, a

6.

2.4 percent increase. We expect to be able to continue to effectively perform the mission of the program with our currently authorized staffing levels.

Three other important facts concerning the operation of the Loan Guaranty program during Calender Year 1982 should be noted. First, 58 percent of VA-guaranteed loans were made without a down payment from the veteran-purchaser. These no down payment loans had an average purchase price and loan amount of $52,284. For those veterans who obtained loans with a down payment, the purchase price averaged $77,930 with an average loan amount of $65,971.

Second, in the manufactured home loan program in Calendar Year 1982, veterans obtained 10,397 loans, a new high in manufactured home loan financing in a year when interest rates were as high as 18 1/2 percent for unit loans. The average purchase price for manufactured homes was $20,750 with an average loan amount of $20,022.

Third, the VA loan program has assisted over 11 million veterans obtain housing since the program was enacted in 1944. Mortgage credit totaling almost $203 billion has been infused into the economy; much of these funds would not have been available without the benefit of this GI Bill program.

The benefits of the VA Loan Guaranty program are possible for America's veterans because the Congress established the Direct

7.

and Loan Guaranty Revolving Funds to pay for the program's expenses except administrative costs. The Loan Guaranty Revolving Fund has been significantly depleted during the past 3 fiscal years. The unobligated balance in the fund has decreased from $285 million on September 30, 1980, to $237 million on September 30, 1981, to $74 million as of September 30, 1982. To return capital to this fund, we sold $373 million in loans in Fiscal Year 1982, and we have sold $642 million in loans to date in Fiscal Year 1983. However, we estimate the Loan Guaranty Revolving Fund will have a balance of $100 million or less at the end of this fiscal year.

Likewise, the unobligated balance in the Direct Loan Revolving Fund has decreased from $473 million on September 30, 1980, to $367 million on September 30, 1982. This fund currently has an unobligated balance of $404 million, but the balance available at the end of the year will depend on the need for fund transfers from this fund to the Loan Guaranty Revolving Fund.

Mr. Chairman, you specifically requested information concerning direct loans. The VA made 23 direct loans in Calendar Year 1982 totaling $673,553. Seventeen of these loans were made to veterans also receiving specially adapted housing benefits.

Six were loans which had been "in the pipeline" at the time of the cutoff of the general direct loan funds. Construction or title problems prevented loan closing or full disbursement of the loans until recently.

8.

Mr. Chairman, I am sure the committee would also be interested in receiving information about the Specially Adapted Housing Program for the severely disabled veterans. In Calendar Year 1982, 487 veterans eligible for the maximum $32,500 Specially Adapted Housing Grant were approved for such grants. Through Calendar Year 1982, 18,334 veterans have been approved for grants totaling over $280 million. In October 1980, Pub. L. No. 96-385 was enacted which authorized grants up to $5,000 to blind veterans and those veterans who had lost or lost the use of both upper extremities to acquire adaptations for their homes. Through Calendar Year 1982, 367 veterans have received such grants averaging $4,582 each.

Mr. Chairman, you requested that we present the Agency's views on two legislative proposals currently before the Subcommittee.

The first measure I will discuss, Mr. Chairman, is H.R. 2505, a bill to permit substitution of a veteran's housing loan entitlement when the veteran-transferee is not an immediate transferee.

The Servicemen's Readjustment Act of 1944 originally granted a veteran $2,000 of loan guaranty entitlement. No provision was made for a veteran to regain previously-used entitlement. The Housing Act of 1950 amended the law to permit the Administrator to restore a veteran's home loan entitlement if the property was destroyed or "disposed of because of . . . compelling reasons devoid of fault on the part of the veteran . . . ."

9.

In 1974, the Congress recognized "the fact that we live in a highly mobile society and also that many veterans desire or find the need for a different or larger house for personal reasons." S. Rep. No. 1344, 93d Cong., 2d Sess. 10 (1974). Accordingly, the Congress greatly expanded the circumstances under which previously-used home loan entitlement could be restored when it enacted the Veterans Housing Act of 1974, Pub. L. No. 93-569.

At present, Mr. Chairman, section 1802(b) of title 38, United States Code, permits home loan entitlement to be restored when either of two conditions are met. Under the first method, the property which secured the prior loan must have been disposed of by the veteran or destroyed by fire or natural hazard, and the prior loan must have been paid in full. If the Administrator has suffered a loss on such a loan, that loss must have been paid in full.

A veteran's home loan entitlement may also be restored when another veteran agrees to assume the outstanding loan and to substitute his or her VA home loan entitlement for that of the original veteran. The new veteran must be found by VA to be fully qualified for the loan. The law provides, however, that the new veteran must be "an immediate veteran-transferee."

H.R. 2505, Mr. Chairman, would eliminate the requirement that the veteran-transferee be an "immediate" transferee.

10.

The sale of a home with the purchaser assuming the existing mortgage loan is becoming more common. The fact that VA guaranteed loans are freely assumable is an important feature of this type of financing. The substitution of entitlement feature now in the law has enabled veterans to take advantage of the assumability feature of the VA loan as well as to benefit by being able to obtain a new home with VA financing. Loans are often assumed by two or more successive purchasers, and an increasing number of requests are being received for substitution of entitlement where the veteran assuming the loan is not an immediate transferee of the original veteran. An other fact pattern that VA is seeing with increasing frequency involves a marital breakup. A home purchased by a veteran and the veteran's spouse may be awarded to the spouse in a divorce. Some time after the divorce, the former spouse sells the property to a veteran on an assumption. Since the new veteran is not the original veteran's immediate transferee, restoration of the first veteran's home loan entitlement is not legally possible. We see no logical reason to preclude substitution of entitlement merely because the assuming veteran is not an "immediate" transferee.

Accordingly, Mr. Chairman, tne Veterans Administration supports enactment of H.R. 2505.

Mr. Chairman, your letter of March 28, 1983, inviting us to testify at this hearing requested our testimony "on legislation

11.

which would provide financial relief to VA homeowners facing foreclosure. . . ." As of early afternoon of April 19, 1983, such a bill had not yet been introduced. Since the VA has not had sufficient time to review this measure and formulate a position on the bill in time to meet the Committee's deadline for submitting written testimony, we are unable to provide you with our views on that measure at this time. We will be preparing a written report on that bill which we will submit to the Committee in the near future.

Mr. Chairman, this concludes my statement. I will be pleased to respond to any questions that you or Members of the Subcommittee may have.

21-217 O—83——5

Department of Veterans Benefits Washington D C 20420

Veterans Administration

MAY 6 1983

In Reply Refer To: 264

Honorable Richard Shelby
Chairman, Subcommittee on
Housing and Memorial Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

You requested that the VA respond to several questions posed by various members at the April 21, 1983, oversight hearing of the VA Home Loan Program.

We have obtained the information requested and furnish the following answers for the record in response to the members' questions:

Q. How many lenders have been approved for automatic processing authority since the revised standards governing approval of non-supervised lenders were issued?

A. On November 23, 1982, the VA issued revised guidelines governing the approval of non-supervised automatic lenders. Since that date 30 new applications for automatic authority have been received and 22 have been approved, an 8.1% increase in a four month period. In addition during this four month period, 29 lenders were approved for expansion of their automatic authority into new areas of the country.

Q. How many refinancing loans have been closed for the purpose of reducing the interest rate on an existing VA-guaranteed loan?

A. As of March 31, 1983, our records indicate 4,125 closed refinancing loans for the purpose of reducing the interest rate on a VA-guaranteed loan. It should be noted that some loans have been closed and guaranteed but have not yet been coded into VA's computer system. We estimate that more than 30,000 loan applications for this purpose have been received for processing since October 1, 1982.

Q. Concerning the test program to allow reduced interest rates on loans for the sale of VA acquired properties, is Albuquerque, New Mexico one of the test stations?

2.

A. No. The interest rate reduction test program was designed to stimulate property sales in those areas where economic conditions have impacted most seriously on VA's marketing of its acquired properties. A major factor in selecting the participant field stations was the size of their acquired property inventories at the end of Fiscal Year 1982. The Albuquerque Regional Office had 16 properties in its inventory as of September 30, 1982. Consequently, it was not included in the test. The office currently has only 13 acquired properties on hand to sell as a result of mortgage foreclosures.

Q. What is the default rate on VA-guaranteed loans in the State of New Mexico?

A. As of March 31, 1983, there were 142 defaults and claims pending for home and condominium loans in the State of New Mexico. There were also 118 defaults and claims pending for manufactured home loans. Nationwide there were 94,678 home loans and 6,043 manufactured home loans in default or with claims pending. The percentage of defaults and claims pending compared to all loans outstanding for the entire nation was 2.46%. For New Mexico the percentage of defaults and claims pending compared to all loans outstanding was 1.08%. New Mexico continues to have one of the lower rates of home loans in default in the country.

I hope that we have satisfactorily answered the committee's questions. We will be happy to respond to any additional inquiries you may have to complete the oversight process.

Sincerely yours,

Dorothy L. Starbuck

DOROTHY L. STARBUCK
Chief Benefits Director

May 13, 1983

Miss Dorothy Starbuck (20)
Chief Benefits Director
Veterans Administration
810 Vermont Avenue, Room 300
Washington, DC 20420

Dear Miss Starbuck:

Thank you for your recent letter responding to questions posed by Members of the Subcommittee on Housing and Memorial Affairs at the April 21, 1983 hearing on the VA Home Loan Program.

I have distributed copies of your letter to the Members of the Subcommittee and will make them a part of the hearing record.

The American Legion, during its testimony, brought up the issue of buyer brokers for veterans purchasing houses. All witnesses were asked to furnish their positions on this matter by the Honorable Christopher Smith, the ranking Minoirty Member of the Subcommittee. I would therefore appreciatre receiving the Agency's views in regard to this subject so that I may have them inserted in the hearing record.

With all best wishes, I am

Sincerely yours,

RICHARD SHELBY
Chairman
Subcommittee on Housing
and Memorial Affairs

cc: Mr. Robert M. O'Toole

Department of Veterans Benefits Washington D C 20420

Veterans Administration

MAY 25 1983

In Reply Refer To: 264

Honorable Richard Shelby
Chairman
Subcommittee on Housing and
Memorial Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Shelby:

This is in reply to your inquiry concerning the VA's position on buyer-broker arrangements for veterans purchasing homes with VA financing. Currently, VA regulation 38 C.F.R. 36.4312(b) prohibits a veteran-purchaser from paying or being charged for real estate brokerage charges.

There may be some instances in which a "buyer's broker" arrangement could benefit a prospective purchaser. However, usually there are a large number of homes available on the market. Sellers and their agents generally advertise and announce the availability of these homes, at no direct cost to the purchaser. Use of a "buyer's broker" under these circumstances contributes little toward the purchaser's goal of obtaining a home at the lowest possible cost and may in fact increase the cost by the amount of the commission charged. In this light, the "buyer's broker" arrangement takes away the veteran's opportunity to freely negotiate for the purchase of a home on the best possible terms without paying a commission.

By reading the newspapers and contacting real estate brokers, buyers can find a large number of suitable and desirable properties from which to choose. Many of these properties are marketed for sale by their owners, who by not engaging selling brokers "save" a commission to improve their negotiating flexibility with prospective purchasers, reached through relatively inexpensive newspaper advertisements. The market offers buyers a choice of purchasing a home for sale by the owner, who may be willing to share a part of the "saved" commission with the buyer in the form of a reduced price, or purchasing a home listed with brokers, with no direct commission charge to the buyer. In rare cases involving a prospective buyer with a requirement for a very unusual type of home that is not typically found on the market, use of a "buyer's broker" might be advantageous. However, we do not believe this would justify a change in the present policy, which appears to function well on behalf of veterans.

2.

Honorable Richard Shelby

In cases involving VA-guaranteed loan financing, the veteran receives a number of important protections. He or she receives the benefit of a VA appraisal establishing the reasonable value of the property. If the veteran was not aware of this reasonable value before signing the sales contract, there is a right to rescind the contract without penalty or negotiate a reduction in price. The VA also reviews the closing costs charged against the veteran-buyer to assure that they are reasonable.

We do not believe that it would be in a veteran's interest to engage a "buyer's broker" to obtain services readily available through brokers representing the seller, and thereby incur unnecessary additional cost. However, the VA will be monitoring developments in this area. If in the future it is indicated that buyer-broker arrangements are decidedly advantageous to veteran-purchasers, the VA will change its position in this matter.

Sincerely yours,

Dorothy L. Starbuck

DOROTHY L. STARBUCK
Chief Benefits Director

1125 Fifteenth Street, N.W.
Washington, D.C. 20005
202-861-6500

Mortgage Bankers Association of America

STATEMENT OF

WILLARD GOURLEY

PRESIDENT
NORTHWESTERN MORTGAGE CORPORATION
CHARLOTTE, NORTH CAROLINA

on behalf
of the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

before the

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

of the

COMMITTEE ON VETERANS' AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

Hearings on

The Veterans Administration Home Loan Guaranty Program;
and HR 2618, a Bill Providing Financial Relief for
Veteran Homeowners Facing Foreclosure.

April 21, 1983

Mr. Chairman and Members of the Subcommittee, my name is Willard Gourley. I am President of Northwestern Mortgage Corporation of Charlotte, North Carolina, a mortgage banking company, and Chairman of the Legislative Committee of the Mortgage Bankers Association of America.* Accompanying me are Burton C. Wood, MBA's Legislative Counsel, and William E. Cumberland, MBA's General Counsel.

We appreciate the opportunity to appear before you today to testify on the Veterans Administration (VA) home loan guaranty program and on legislative proposals for financial relief for homeowners with VA guaranteed home loans who are facing foreclosure.

MBA believes that the home loan guaranty program is an excellent one and that the VA has operated the program well. We support current proposals to reinstate veterans' entitlement under circumstances not allowed in present law, and to include certain manufactured housing within the regular home loan guaranty program. We urge that the guaranty fee imposed on veteran borrowers be allocated to the VA rather than reverting

---

*The Mortgage Bankers Association of America is a nationwide organization devoted exclusively to the field of mortgage and real estate finance. MBA's membership comprises mortgage originators, mortgage investors, and a variety of industry-related firms. Mortgage banking firms, which make up the largest portion of the total membership, engage directly in originating, financing, selling, and servicing real estate investment portfolios. Members include:

- o Mortgage Banking Companies
- o Mortgage Insurance Companies
- o Life Insurance Companies
- o Commercial Banks
- o Mutual Savings Banks
- o Savings and Loan Associations
- o Mortgage Brokers
- o Title Companies
- o State Housing Agencies
- o Investment Bankers
- o Real Estate Investment Trusts

MBA headquarters is located at 1125 15th Street, N.W., Washington, D.C. 20005; telephone: (202) 861-6500

to general Treasury funds. With regard to foreclosure relief, MBA believes that mortgage delinquencies and foreclosures will soon begin to recede on a National level, and thus we question the need for Federal financial relief measures. However, MBA does have some general views on the form mortgage relief legislation should take if Congress determines that relief is necessary at this time and some specific suggestions with respect to HR 2618, a recently introduced measure directed toward assisting Veteran homeowners experiencing difficulty with their mortgage payments.

VA HOME LOAN GUARANTY PROGRAM

Mortgage bankers have always been heavily involved in the VA home loan guaranty program. During the last decade, mortgage bankers originated approximately 76 percent of all VA-guaranteed loans. In 1982, mortgage bankers originated approximately 81 percent of all VA-guaranteed loans. The VA home loan guaranty program is one of the most successful housing programs in this Nation's history. Approximately 11 million veterans have been housed with VA-guaranteed loans, including 93,000 new loans in 1982 alone. Yet the program costs the Federal government very little. Claims are paid from a revolving loan guaranty fund that is replenished by income generated from past loan and property sales without requiring appropriations. Thus, the actuarial soundness of the VA home loan guaranty program has been demonstrated over many years of experience.

At the present time, the loan guaranty program is operating at its maximum capacity. Despite the efforts of the hard-working staff of the VA, approximately one-half of the VA loan guaranty offices are not able to meet their processing timetables. The recent drop in interest rates and the release of pent-up housing demand have combined to bring a large volume of veteran homebuyers into the VA program.

This backlog is occurring, even though during the past year, the efficiency of the loan guaranty program has been increased as mortgage bankers and other lenders have worked in cooperation with the VA to implement the Automatic Guaranty Program.

There are certain particulars in the Automatic Guaranty Program that need adjustment to improve its operation. We anticipate that the VA will continue to show a concern for program efficiency and we hope the VA will be amending its regulations to improve these aspects of the program. For example, VA requires that 50 percent of a lender's VA business must be processed under the Automatic Guaranty Program. However, refinancings are not eligible for the automatic program because the market-related discount points must be approved by VA as reasonable in each case. By making refinancings eligible for the Automatic Guaranty Program, VA could further increase activity under that program, thus reducing the office backlogs even further. Other obstacles to the use of the Automatic Guaranty Program are the requirements that lenders process applications at the lender's central or regional headquarters rather than in the local branch office, and that no lender staff appraisers may provide the required property appraisal. Branch office processing and staff appraising will both be allowed in the new program of delegated underwriting, called Direct Endorsement, which the Department of Housing and Urban Development (HUD) intends to implement in its Federal Housing Administration (FHA) insurance programs, and we hope the VA will follow suit.

Va Home Loan Guaranty "Funding Fee"

Last year, MBA urged Congress to reject the Administration's proposal to impose a one-half percentage point fee for VA-guaranteed loans. We believed that it was unnecessary and could impose an additional burden upon veterans who wish to become homeowners. In

calendar year 1982, approximately 58 percent of all VA-guaranteed home loans were no-downpayment loans. This unique feature of the VA loan guaranty program enabled many veterans, who otherwise could not afford homeownership, to purchase homes of their own.

The funding fee, in some instances, can be the critical expense charge that places homeownership beyond reach. Given the fact that the VA loan program is an entitlement granted to veterans for past service in the armed forces, MBA believes it is inappropriate to charge a fee to the beneficiaries of the program.

However, Congress permitted a fee to be charged, and provided that the fee be remitted to the Treasury as general revenue rather than targeted for use by the VA in the administration of the loan guaranty program. To date, veterans have paid $18 million in funding fees. These fees, if needed to support the loan guaranty program, should be applied directly to defray expenses attached to program administration, similar to the treatment of user-fees under the non-subsidized FHA mortgage insurance programs, rather than treated as general revenues of the Treasury.

Free VA Interest Rate

Under current law, the maximum interest rate allowable on a mortgage guaranteed by the VA is fixed by the VA Administrator. In the early 1950s, Congress enacted legislation to fix interest rates and to ban discount points. The result was a collapse of the FHA/VA portion of the mortgage market, and the law was repealed.

The setting of a maximum interest rate by the VA Administrator harkens back to an earlier era in America's financial history when residential mortgage markets were highly localized and sometimes dominated by a few suppliers of mortgage credit. Possibility for

abuse existed, and the Federal government, in the FHA and VA mortgage insurance and guaranty programs, acted in a fashion similar to state governments and set maximum interest rate ceilings. This Federal and state system of interest/usury ceilings was not a problem as long as interest rate changes occurred infrequently, and in small increments. However, the volatility of interest rates in the latter part of the 1970s and early 1980s has turned this restrictive system of interest rate limitations into a hangman's noose around the neck of the housing and mortgage finance industries.

Congress recognized this, at least as far as state mortgage usury ceilings were concerned, and preempted those laws as part of the Depository Institutions Deregulation and Monetary Control Act of 1980 (P.L. 96-221). MBA believes the time has arrived for Congress to complete the task of reforming the law by repealing all restrictions on interest rates for FHA and VA mortgages.

The Federal preemption of state usury ceilings has been in force for three years and the period during which states could re-assert their authority to be involved with mortgage loan rate regulations has expired. Only 14 states expressed a continued desire to monitor interest rates by overriding the preemption. To date, there have been no widely reported and documented instances of abuse or charges of substantially above-market interest rates by mortgage lenders. The market forces of supply and demand, together with the national linkage of all local mortgage markets, ensure that no single lender or group of lenders in any locality or region can demand and receive mortgage interest rates above the market rate. The FHA and VA loan programs should recognize this fact.

VA Mobile Home Program

MBA understands that consideration is being given to authorize the VA to guarantee financing of the purchase of a double-wide mobile home and lot under its regular loan guaranty program (38 U.S.C. 1810). MBA supports this proposal. Currently, all mobile home loan guaranties are restricted to the mobile home lending program authorized by 38 U.S.C. 1819. Such a change would benefit the veteran because the maximum allowable interest rate under Section 1810 is currently 12 percent, compared with a rate of 13.5 percent under Section 1819. Current mortgage amount limitations for loans to purchase a double-wide with lot should also be lifted, making it possible for a veteran to finance a manufactured home and lot in the same manner as if it were a conventionally built home. The term for repayment of the loan should also be increased, making it possible for a veteran to arrange a 30-year mortgage on the property.

The FHA is already pursuing this change with its combination mobile home/lot loan, and it appears FHA will soon have a program in place to insure these loans under Title II. A secondary market is already in place for combination loans via Government National Mortgage Association (GNMA) pools and Federal National Mortgage Association (FNMA) purchase programs.

VA mobile homes are built to Title VI standards, as is manufactured housing insured by the FHA Title I program. Builders, developers, lenders, and borrowers have realized that double-wide mobile homes, when placed on a developed site, are comparable with conventionally built housing in terms of quality of construction, amenities, and visual appearance. Consequently, there should be no difference in the way in which they are financed or their financing is guaranteed.

FORECLOSURE RELIEF

In addition to the operation of the VA home loan guaranty program, this Subcommittee is justifiably concerned about the current situation with respect to delinquencies and foreclosures under the loan guaranty program.

We have been furnished a copy of HR 2618, introduced on April 19, 1983, which would authorize the VA Administrator to provide financial assistance to veteran homeowners experiencing difficulty with respect to their guaranteed mortgage loans. The bill provides assistance to temporarily unemployed veteran homeowners who are at least six months delinquent in mortgage payments and who have a reasonable prospect of being able to resume full payments within six months after receiving assistance. The assistance would be paid out of the VA Direct Loan Revolving Fund, not to exceed $8,400 for any one veteran. The veteran must occupy the dwelling as his or her home, and the unemployment or substantial reduction in household income must be through no fault on the veteran's part. The assistance shall be in the form of an advance made to the mortgage holder and applied by the holder, first to the amount past due as of the date of the advance, with any remaining amount to be paid on future payments as they become due.

The advances shall constitute an interest bearing debt from the veteran to the U.S. and shall be secured by a lien on the property. It must be repaid within 54 months after the advance is made. The VA Administrator may require partial payments on the mortgage. If the veteran defaults after having received all eligible advances, the lender may procede with foreclosure of the mortgage. Repayments of advances shall be deposited to the Direct Loan Revolving Fund. The program shall terminate at the end of two years.

As the Subcommittee may know, the House Banking Committee has reported out a mortgage relief bill, HR 1983, "The Emergency Housing Assistance Act of 1983," which would cover borrowers who are experiencing difficulties in keeping their mortgages current under conventional mortgage programs, as well as the VA program—FHA insured borrowers being covered under the FHA temporary mortgage assistance payments program (TMAP). This bill carries an appropriation authorization of $760 million. Floor consideration was begun on April 19, and will continue in the near future. A similar proposal has been approved by the Senate Banking Committee in its version of the 1983 housing bill, which would, instead of authorizing an appropriation, authorize a GNMA guaranty covering second mortgages to assist conventional and maybe VA borrowers in curing mortgage defaults. While sharing the general concern for home owners who are experiencing financial difficulties as a result of the current recession, MBA feels that there may not be a need for a major assistance program at this time.

Before addressing the provisions of the VA mortgage relief proposal, HR 2618, MBA would like to discuss the background of the current default, delinquency, and foreclosure problems and to share with you current industry practices addressing these problems.

The Current Economic Situation

The Nation's economy, in the past two years, has endured the longest, and in many senses the deepest recession since the Great Depression. In the fourth quarter of 1982, unemployment reached 10.8 percent, the highest level since before World War II. Manufacturers used less than 68 percent of industrial capacity. Real Gross National Product, the broadest measure of how our economy performs, was stalled in 1982 at a level below that of 1979. The primary cause of this stagnation was a more restrictive

monetary policy pursued by the Federal Reserve Board in order to reduce a prolonged inflationary spiral and to offset mushrooming Federal deficits. At a tremendous cost, this strategy has brought inflation down to its lowest level in over 10 years.

As in other recessionary periods, characterized by prolonged high unemployment, the Nation experienced a higher than normal incidence of mortgage delinquencies and foreclosures in 1982. In a non-recessionary year such as 1979, for example, the average mortgage delinquency rate, as measured by MBA's National Delinquency Survey, was 4.62 percent, with most of these loans only 30 days delinquent. In 1982, however, the average mortgage delinquency rate was 5.52 percent, a considerable increase. We estimate that this delinquency rate represents about 1.2 million mortgage loans. Again, more than two-thirds of the delinquent loans were only 30 days late, the category that accounted for more than half of the increase in delinquencies during the past three years. Loans that are 90 days or more overdue are those that are most likely to fall into foreclosure. Here, too, there have been increases since 1979—from 0.48 percent of the loans surveyed in that year to 0.76 percent of the survey sample in 1982. Similarly, foreclosure rates also grew during this recession. In 1979, the average rate of loans newly being placed into foreclosure was 0.14 percent. In 1982, an average 0.21 percent of all loans were placed in a foreclosure category. The number of loans in the foreclosure process also grew during this period. This measure includes loans in some stage of foreclosure proceedings, regardless of when those proceedings were begun. During 1979, this inventory number stood at 0.29 percent. In 1982, this measure had grown to an average 0.59 percent.

These statistics demonstrate that, during the recent recession, mortgage delinquencies and foreclosures grew steadily (see APPENDIX). This is not surprising. Mortgage loan delinquencies are highly correlated with the incidence of unemployment and with family difficulties such as divorce or long illness, difficulties that are also frequently linked to

unemployment problems. Unemployment peaked during the 1981-1982 recession at 10.8 percent, and many of these unemployed persons had been out of work for some time. We know from studies of the subject that long-term unemployment can lead to increased chances of illness and of family disruptions. It is not unexpected, therefore, that this economic distress should manifest itself in high mortgage delinquency rates and in some increases in mortgage foreclosures. Further, the increase in workers cut back on overtime wages and those working less than full time also contributed to the escalation in mortgage delinquencies and foreclosures, as well as growing problems with consumer loans other than mortgages.

It is important to keep these data in perspective however. Despite the depth of the recession, there are many signs that the worst is over. Housing units started, a key indicator of construction activity, were at 321,000 during the first quarter of 1983, compared with 176,700 units started during the first quarter of 1982. This is an increase of 82 percent, and represents the highest first quarter total since 1979. Industrial production rose 1.1 percent in March, nearly as high as the large 1.3 percent jump in January, and new orders for durable goods are increasing. Unemployment peaked at 10.8 percent in December and should decline slowly throughout 1983. Inventory liquidations by businesses, a chief contributor to the declines in GNP recorded in 1982, appear to be ending. These and other leading indicators are giving signs that a recovery is now beginning. Indeed, 1983 should be the best year for our economy since 1979.

Based upon this evidence, MBA believes that national delinquency and foreclosure rates will not become significantly worse during the current economic cycle. Higher employment, as well as the rising real incomes that are typically associated with a slowdown in inflation, should ease the pressure on homeowners and consumers considerably. In addition, if a home must be sold, the current housing market is far more congenial to

21-217 O—83——6

quick and profitable sale by the borrower than the depressed market of one year ago. Moreover, the substantial decline in mortgage interest rates from late 1981 to the present, a decline that accelerated in the fall of 1982, has created excellent opportunities for refinancing mortgages. Our best estimate is that refinancings account for between 20 to 30 percent of mortgage activity recently, and the lower rate mortgages that are resulting will further ease the affordability problems plaguing many borrowers.

Historical experience has shown that the best medicine for delinquent mortgage payments is a strong economy. A primary factor in ensuring long-lasting economic recovery is a determined effort on the part of Congress and the Administration to reduce the massive budget deficits that now hang over us. Federal deficit financing of the kind projected for 1984 through 1988 in the proposed FY 1984 Budget is the chief threat to the kind of sustained economic growth that is necessary to allieviate unemployment, increase incomes, and ease consumer debt burdens generally. Treasury borrowing required to pay for these deficits crowds out private borrowers in the capital markets and puts upward pressure on interest rates. The last thing that America needs is a repeat of the 1980-1981 experience when rising interest rates choked off an incipient economic recovery. We strongly urge the Congress to tackle the difficult problems of the Federal deficit and to reduce future deficits significantly.

It is also important to point out that despite the increase in delinquencies, our members, as well as the other major mortgage loan servicers, are doing everything that they can to prevent foreclosures. Recognizing the unprecedented severity and extended duration of the recession, mortgage lenders truly are exercising voluntary forebearance and are counseling and working with delinquent homeowners in order to keep them in their homes, while at the same time ensuring that contractual obligations to mortgage investors are preserved.

Ironically, the fact that lenders are forebearing results in an increase in the delinquency statistics, because loans are being held in delinquency status for longer time-periods, as lenders attempt to continue working with responsible borrowers rather than completing the foreclosure. A factor leading to an increase in the inventory of loans in the process of foreclosure is the rise in personal bankruptcy filings, the effect of which is to impose an automatic stay on foreclosure proceedings. In this light, the higher foreclosures in process do not necessarily represent a worsening of the problem. Also, it should be pointed out that some portion of the loans currently delinquent and in the process of foreclosure are mortgages on investment properties, rather than owner-occupied properties. Unfortunately, it is not possible to separate investment versus owner-occupied properties in the available statistics. This does suggest, however, that not every mortgage problem represents a threat to a family's ability to retain its shelter.

Emergency Foreclosure Assistance Programs

Foreclosure is but a symptom of the overriding cause—sustained high unemployment. Because it appears that unemployment is now on the decrease, and because of the dramatic improvement in interest rates and real estate activity, MBA believes that the delinquency rate may be at or near its peak. As a result, we question whether or not there is a need for emergency foreclosure relief at this time, as it could address a problem that we believe will soon be on the wane.

This does not mean that we are not concerned about the difficulties and hardships facing those economically distressed families who are having trouble keeping their mortgage payments current. Lenders are forebearing whenever possible, particularly where the default is beyond the control of the borrower. For a variety of reasons, no reputable

lender wants to take back a property. Foreclosures create bad publicity in the community, are administratively costly, and frequently require substantial investment by lenders in securing properties prior to sale or transfer to an insurer or guarantor, such as VA. Not only is foreclosure costly, but, in the case where mortgage bankers are forced to foreclose on a loan, servicing fees—the bread and butter income for a mortgage banking operation—are lost.

Thus, lenders attempt to forebear wherever a borrower's attitude is cooperative, and the borrower has previously been making payments in a responsible manner. Lenders are willing to reschedule payments, stretch payments out, and work out problems whenever practical, if there is a possibility that the underlying problem can be solved over time. The bulk of loans in default, in fact, are not ultimately foreclosed upon, because the borrower either corrects the default or a forebearance plan is worked out between the borrower and the lender designed eventually to bring the loan current. Lenders have been extremely active in counseling borrowers, and also encourage borrowers to seek outside counseling, for example, from credit bureaus and from state or county consumer affairs departments.

Nonetheless, it is prohibitively expensive for a lender to forebear for an extended period of time, so it eventually becomes necessary to initiate foreclosure proceedings, where it does not appear that a borrower can benefit from forebearance. Further, when lenders do not receive a borrower's payment, investors often require the lender either to repurchase the loan or to forward payments whether or not they have been received. For example, under the GNMA Mortgage-Backed Security (MBS) program, through which many VA-guaranteed loans reach the nationwide capital market, lenders are obligated to forward both interest and principal to the investor, even if no payment has been made. The Federal Home Loan Mortgage Corporation (FHLMC), under its Participation Certifi-

cate (PC) program, requires the lender to forward interest only. Under the FNMA Conventional MBS program, lenders must forward both principal and interest. For whole loans, FNMA, at present, does not require lenders to forward interest, but soon will. These investor requirements put an enormous strain on a lender. Lenders prefer to forebear for the reasons noted, but in the final analysis lenders cannot afford to advance funds to investors to cover unpaid loans for extended periods. This is particularly true where lenders are servicing large numbers of loans in localities experiencing high unemployment. Thus, there is a limit to lenders' ability to forebear, but it is a limit that lenders attempt to avoid whenever possible.

In sum, MBA believes that the problem of mortgage delinquencies and foreclosures will soon begin to recede on a national level, and, therefore, we question the need for emergency relief at this time. Further, we are greatly concerned about the impact of some proposed assistance programs on the Federal deficit, which is already excessive. Nonetheless, we would like to offer our comments on what we believe the framework of any such relief program should be, because we realize that there are a number of proposals before Congress advocating such relief programs.

Form of Relief

Before offering suggestions on the parameters of any mortgage relief program, MBA would like to stress the importance of voluntary measures that a lender can take that do not require reliance upon an expensive assistance program. Many lenders, as previously stated, will counsel borrowers on how to manage limited resources. We stress that borrowers should contact their lenders as soon as a problem develops, rather than when they are 60 or 90 days in arrears. This allows a lender to formulate a workout and

forebearance program before a serious delinquency has set in. In some cases, borrowers might be able to refinance older, low balance loans to recover some of their equity that has built up. In these cases, if the lender sees the problem as being of limited duration, refinancing is an ideal solution. Lenders can also suggest that a borrower look at the value of the property and consider selling it to recoup the equity and avoid the financial stigma of foreclosure.

However, situations often develop where forebearance would be unwise on the part of the lender and there is no recourse, except foreclosure. Some of these situations would be candidates for a foreclosure assistance program. MBA's major concern regarding foreclosure relief is its potential cost, particularly because in many instances there is no chance that a borrower will ever be able to catch up again. In this light, we recommend that a relief program, if enacted, be limited in nature, targeted only to owner-occupants, and limited to those borrowers most in need.

Any program should be targeted toward those most in need of its assistance. Relief should apply only to the principal residence of a homeowner who, through no fault of his or her own and due to economic circumstances, is underemployed or unemployed. Among the other major causes of delinquency are marital breakups and serious illnesses. MBA does not believe that a foreclosure relief program should be extended to cover these types of problems, but rather should be focused on situations developing because of unemployment or underemployment. It is a pragmatic reality that any funds appropriated for a relief program will be limited, and thus, should be targeted to those most in need due to the extraordinary circucircumstance of today's sustained high level of unemployment. Furthermore, relief should be extended only to those who are deemed capable of resuming payments in the not too distant future, and of repaying the assistance extended. To do

otherwise is simply to avoid the inevitable, and stall foreclosure until a later date with little possibility to recoup the assistance.

The trigger for activating a foreclosure relief program, therefore, should be based on regional or local data, rather than on national statistics. Recent foreclosures have been concentrated in areas experiencing high unemployment. While national statistics might not trigger activating an emergency foreclosure assistance program, local conditions in many regions could warrant implementation. Regarding the trigger mechanism itself, most of the bills that have been introduced utilize the Federal Home Loan Bank Board's (FHLBB) delinquency statistics. These statistics skew the picture somewhat, we believe, because they collect data primarily for conventional loans. Further, the statistics do not give a breakdown of the primary reason that a borrower is delinquent, that is, whether it is due to unemployment, marital discord, or illness. MBA recommends a trigger based on local or regional unemployment statistics so that the program can be focused to address what we believe is the major problem underlying the upturn in delinquencies. Furthermore, any trigger that is used should have an automatic cutoff, so that once unemployment slides below the trigger level, the program will automatically deactivate. Of course, those borrowers who have already been accepted for relief under the program should continue to be served until their eligibility period expires.

A foreclosure relief program should be designed so as not to increase the incentive for a borrower to default. MBA believes that the 1978 liberalization of the Bankruptcy Act has resulted in increased bankruptcies. We fear that a foreclosure relief program, if it is too expansive in its design, will decrease the incentive for lenders to forebear and devise workout programs; will diminish the maximum use of the private programs offered by conventional mortgage insurance companies; and, will result in increased delinquencies

beyond what otherwise might occur because borrowers will be aware that a relief program is available.

In this vein, a foreclosure relief program should only supplement a borrower's limited ability to pay, by requiring a borrower to make partial payments from whatever income the borrower is receiving. A borrower should be required to use, but not exhaust, savings. Dipping into savings above a Congressionally set level for emergencies would be a small price to exchange for coverage under a relief program. These partial payments are not designed so much to reduce the cost of the program as to indicate a borrower's ability and willingness to work out delinquency problems. Even if the partial payment is nominal, lenders practicing forebearance with borrowers have found that partial payments are a good indication of a borrower's continued interest in solving the delinquency.

Furthermore, to reduce the incentive for borrowers to rely on the program when they otherwise may be able to work out problems through counseling or a forebearance plan, MBA recommends that interest be imposed on the assistance payments. MBA suggests that the interest rate be the same as the note rate on the mortgage but not less than seven percent. This is not intended to penalize a delinquent borrower, so much as to increase the incentive to solve the delinquency by private means rather than simply resorting to what essentially would be an interest-free Federal loan. If assets can be sold by a borrower to reduce the credit load, they should be sold if possible. A borrower who can rely on an interest free loan to keep up mortgage payments has little incentive to sell assets or resume payments to retain his or her home.

MBA believes that any assistance payments should be recapturable. The assistance payments should be secured by a second lien or second trust against the property to ensure repayment. MBA also recommends that assistance under a foreclosure relief program

should not be extended for too lengthy a time period, unless a borrower has a significant amount of equity in the home.

Most foreclosures occur within the first several years of a mortgage, when there may be little equity built up in the home, particularly where the downpayment was small. In such a case, foreclosure relief should be limited, because of the strong possibility that a borrower, faced with repayments that exceed his or her equity in the home, will simply walk away and default. The lack of equity invested in a home is as a great a reflection on a borrower's future willingness to pay as the prospect of future employment is a reflection of that borrower's future ability to repay the mortgage. Therefore, assistance payments should not exceed the equity, because the chance of recapturing assistance above the actual value of the home is slight. In such an instance, it is simply better to 'face the music' and let the home go, rather than encouraging a borrower to rely on assistance when there is no future prospect of bringing the mortgage current and repaying the assistance. While it is a sad situation and homeowners have a large emotional investment in their homes, it is better for the borrower to resolve the situation in the present and seek lower cost housing, than it is to overextend the borrower beyond any future capability of repayment.

MBA suggests that assistance payments should be limited to 6 months, with 6 month extensions up to a total of 18 months. To go much beyond this time period severely reduces the ability of a borrower ever to repay the assistance and to bring the mortgage current. Where a borrower has a substantial amount of equity invested, especially when a borrower has a chance of future employment or job retraining, a different case exists. Here the assistance should be limited to the available equity or 36 months of assistance payments, whichever is less.

Lenders or other parties should counsel borrowers during this period, and conduct periodic reviews to determine whether the circumstances of the borrowers have changed, either positively so that the borrower no longer needs assistance, or negatively, such that further assistance would be wasted because the borrower has little chance of regaining solvency. There should be penalties imposed for fraudulent misrepresentations by a borrower concerning present employment or assets, either at the application or periodic review stage.

Assistance payments should cover principal, interest, taxes, assessments, hazard insurance, mortgage insurance, ground rents, lenders' expenses in connection with payments or repayments, and any charges necessary to bring mortgages current. For those supervised and insured lenders who attempt to work out delinquencies with borrowers, the pertinent regulatory agencies should waive or relax limitations pertaining to the operations of such institutions as related to the safety or soundness of the lender, in order to encourage forebearance. If current regulations in such a situation are enforced strictly, they penalize those lenders who attempt private efforts to bring borrowers current on their mortgages.

PROVISIONS OF HR 2618

The following observations are submitted in connection with the provisions of HR 2618.

Delinquency Periods Provided in the Bill

Section (c)(1) provides that assistance will be available for "temporarily unemployed veteran homeowners who are at least six months delinquent in the payment on the

veteran's primary loan." The bill does not indicate whether the six months called for in Section (c)(1) must pass before a request for assistance can be made or whether the request for assistance may be made during the period of delinquency. A three-month delinquency period prior to foreclosure is consistent with general practice and with the guaranty program of the VA. MBA recommends that the bill be amended to refer to a 90 day period of delinquency, and to clairfy that assistance may be sought when the situation indicates it will be needed.

Delinquent Second Mortgages

The assistance program is made available only to veterans who are delinquent on their primary loan, which is defined to include only loans guaranteed pursuant to Section 1810 and Section 1819 of Title 38, U.S. Code. This eliminates the ability of the Administrator to assist the veteran who may be faced with losing his or her home by foreclosure of a second mortgage. There are strong indications that a signficiant number of homeowners suffer foreclosure of second mortgages, even though the first mortgage holder is willing to forebear. If the bill is to provide protection for the veteran, delinquent second mortgages should be included.

No provision is made for the Administrator to determine whether the recipient has a reasonable chance of making repayment of the advances made under the assistance program. Although a finding by the Administrator that the veteran is reasonably able to repay such advances may be implied from Section (4)(C) which requires that the veteran shall agree to repay the advance no later than 54 months after the advance is made, the requirement that the Administrator find a reasonable likelihood of repayment of the advance should be made explicit.

In this connection, the bill should provide that the assistance should not exceed the veteran's equity in the house or the VA guaranteed amount, unless the Administrator finds that extraordinary circumstances warrant it in a particular case.

Payments Covered

Section (3)(a) authorizes the primary loan holder to apply the advance to past due amounts and to future payments which are unpaid. Provision should be made to cover payments due, but not past due, on the date the advance is made to the holder. Also, the bill should clarify that all aspects of payments should be covered, including special assessments, late charges, advances to escrows, lenders' expenses in connection with payments or repayments, and ground rents.

Debt to United States

Section (4)(a) provides that the amount of the advance becomes the debt of the veteran, whether the veteran receives the full amount or not. Clearly, the veteran should be liable to the United States only to the extent that the veteran receives benefit by payments on the loan. Also, the relationship between the holder who receives the advance and the United States is undefined, and no provision is made for the repayment of that portion of the advance which is not applied to the mortgage if the veteran obtains employment.

Priority of Lien

Section (4)(b) establishes that all payments under the bill may be secured by a lien on the property involved. However, the bill does not address the relationship between the Administrator's lien and any other lien on the property, including the primary loan. Whether the lien would require recordation to be effective is also not addressed. To sustain an orderly mortgage market and to encourage lenders to aid mortgagors in applying for assistance, the assistance should result in a lien junior or subordinate to all mortgages existing at the time when assistance payments are first made. If the granting of assistance were to result in lenders' security being jeopardized by an intervening lien, they would be discouraged from participating in the program.

Program Funding

Section 8 provides that the assistance will be made from the Direct Loan Revolving Fund. Our understanding is that the Direct Loan Revolving Fund contained approximately $368 million dollars at the end of FY 1982, and is projected by the VA to reach $400 million at the end of FY 1983. Other than the $8,400 maximum per veteran, the bill contains no limit and no projections on the amount to be made available or that may be needed for the assistance program. MBA is concerned that the authorization of unlimited access to the Direct Loan Revolving Fund could seriously deplete this important operating fund of the VA's homeownership program for veterans. The Subcommittee may wish to address the issue of authorizing a maximum dollar limit on the program.

In closing, MBA believes that the fundamental problem is one of unemployment, particularly structural unemployment in industries that may never recover from the

present recession. That problem, rather than foreclosure, is the issue that must be addressed. Stabilizing interest rates to spur industrial output and reemployment of those out of work will do far more good than a temporary assistance program that does not address the underlying problem. While the cost of a foreclosure program is insignificant compared with the entire Federal budget, it is just such incremental additions that bloat the total deficit. Furthermore, we truly believe that with the peak in the unemployment figures, and the recovery in the housing market already well underway, delinquencies and foreclosures will also trend down. Also, if Congress enacts a jobs program, reemploying many of those currently out of work, this will reduce mortgage delinquencies, thus reducing the specific need for foreclosure relief, at least somewhat. If Congress decides to enact a foreclosure relief program, it should attempt to target the program to those who will benefit the most, and with the assistance, get back on track and resolve their mortgage delinquency situation. Our suggestions that are incorporated in this testimony attempt to target the framework of an assistance program to those who can regain their financial footing in the future.

MBA appreciates the opportunity to appear before the Subcommittee today and would be happy to furnish any additional information if needed.

APPENDIX

National Delinquency Survey

Prepared by the MBA Economics Department
February 15, 1983

Mortgage Bankers Association of America
1125 FIFTEENTH STREET, N.W. • WASHINGTON, D.C. 20005

DATA FOR DECEMBER 31, 1982
AND FOR 4th QUARTER 1982

The delinquency rate for mortgages on one- to four-unit residential property rose in the fourth quarter to 5.70 percent from 5.48 percent in the third quarter. The conventional loan delinquency rate was 3.81 percent, essentially unchanged from the third quarter. VA-guaranteed loan delinquencies rose to 6.18 percent from 5.86 percent, and FHA-insured loan delinquencies were up marginally, to 7.14 percent from 7.07 percent.

The share of loans in delinquency in each of the 30-day, 60-day, and 90-days or more categories increased. The percentage of loans in the one-payment late category increased the most, from 3.76 percent to 3.91 percent, or 15 basis points. The two- and three-payment delinquency rates advanced more modestly, from 0.94 percent to 0.96 percent and 0.78 percent to 0.83 percent, respectively. The 22 basis point increase in the overall delinquency rate is due primarily to the 15 basis point increase in the one-payment past due category.

TEXT NUMBERS ARE SEASONALLY ADJUSTED UNLESS OTHERWISE NOTED.

The most serious delinquency problems are those in the 90-days or more late category. While each type loan increased its 90-days or more delinquency rate, the increases were limited to one basis point for conventional loans and three basis points for VA-guaranteed loans. Longer term delinquencies of FHA-insured loans jumped by nine basis points, a 9 percent worsening in this figure.

On an encouraging note, the rate of foreclosures started remained unchanged during the fourth quarter for all loans and for the conventional and FHA-insured loan categories. Foreclosures started for VA-guaranteed loans declined two basis points from the third quarter, from 0.23 percent to 0.21 percent.

Foreclosures in process at the end of the quarter increased to a level of 0.67 percent for all loans surveyed. Conventional loans in the foreclosure process rose to 0.39 percent from 0.34 percent in the third quarter. FHA-insured loans in this category also increased, to 0.86 percent, a 17 basis point jump. VA-guaranteed loans in the process of foreclosure fell 8 basis points to 0.76 percent.

Regionally, the largest increase in loan delinquency came in the West with an increase of 77 basis points. The South also posted a substantial increase of 55 basis points. Delinquency rates in the Northeast and the North Central regions rose 38 and 31 basis points, respectively. Overall, the North Central region has the highest delinquency rate at 7.16 percent. This region of the country has been particularly hard hit by the fall in industrial production over the past few years and the resulting high unemployment.

The increase in delinquency rates and foreclosures in process are symptoms of a weak economy. With housing leading the way, the nation is now on the road to economic recovery. A stronger economy means increased industrial output, a lower level of unemployment, and decreased mortgage delinquency rates as the recovery picks up during 1983. However, unemployment will remain high by historical standards throughout 1983, and the coming improvement in mortgage payment statistics could be delayed until the second quarter.

DELINQUENCY RATES OF 1- TO 4-UNIT RESIDENTIAL MORTGAGE LOANS
Seasonally Adjusted

END OF QTR	ALL LOANS					CONVENTIONAL LOANS					VA LOANS					ALL FHA LOANS				
	PERCENT OF LOANS																			
	Total Past Due	Installments Past Due			Fcls started	Total Past Due	Installments Past Due			Fcls * started	Total Past Due	Installments Past Due			Fcls started	Total Past Due	Installments Past Due			Fcls started
		30 Days	60 Days	90 Days or more			30 Days	60 Days	90 Days or more			30 Days	60 Days	90 Days or more			30 Days	60 Days	90 Days or more	
1980																				
1st	4.90	3.54	0.83	0.53	0.13	3.04	2.30	0.47	0.27	0.07	5.23	3.81	0.97	0.64	0.16	6.50	4.74	1.05	0.71	0.15
2nd	5.01	3.61	0.85	0.55	0.14	3.09	2.30	0.51	0.28	0.07	5.30	3.87	0.97	0.66	0.17	6.79	4.93	1.11	0.75	0.18
3rd	4.86	3.52	0.85	0.58	0.16	3.06	2.25	0.51	0.30	0.08	5.36	3.70	0.96	0.70	0.19	6.57	4.66	1.10	0.78	0.21
4th	5.00	3.52	0.89	0.62	0.15	3.14	2.26	0.53	0.33	0.09	5.44	3.75	0.97	0.72	0.18	6.36	4.44	1.10	0.81	0.20
1981																				
1st	5.28	3.77	0.89	0.65	0.16	3.07	2.27	0.48	0.32	0.09	5.81	4.09	0.98	0.78	0.18	7.02	5.01	1.13	0.88	0.20
2nd	5.29	3.72	0.89	0.68	0.17	3.24	2.36	0.55	0.34	0.11	5.67	3.95	0.98	0.76	0.18	6.77	4.80	1.16	0.81	0.22
3rd	5.28	3.73	0.89	0.64	0.15	3.43	2.50	0.58	0.35	0.11	5.61	3.90	0.97	0.74	0.17	6.82	4.83	1.14	0.86	0.20
4th	5.18	3.67	0.87	0.64	0.16	3.31	2.39	0.57	0.35	0.11	5.60	3.89	0.97	0.74	0.18	6.61	4.68	1.09	0.83	0.21
1982																				
1st	5.36	3.75	0.90	0.70	0.20	3.52	2.52	0.59	0.42	0.13	5.77	4.00	0.99	0.79	0.22	6.92	4.84	1.14	0.94	0.25
2nd	5.58	3.83	0.97	0.78	0.20	3.68	2.56	0.65	0.48	0.13	5.89	4.09	1.05	0.89	0.22	7.07	4.88	1.24	0.94	0.25
3rd	5.48	3.76	0.94	0.78	0.22	3.79	2.61	0.68	0.52	0.14	5.86	3.95	1.02	0.89	0.25	7.07	4.88	1.20	0.88	0.29
4th	5.70	3.91	0.99	0.83	0.22	3.81	2.63	0.65	0.53	0.14	6.18	4.19	1.07	0.92	0.23	7.14	4.80	1.17	1.07	0.28

MORTGAGE BANKERS ASSOCIATION OF AMERICA

STATE, AREA AND CENSUS REGION	ALL LOANS							CONVENTIONAL LOANS						
	NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE		NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE	
		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER
CONNECTICUT	106,022	4.22	2.68	0.81	0.72	0.21	0.07	86,438	4.07	2.52	0.81	0.74	0.17	0.05
MAINE	21,936	5.17	3.53	0.97	0.67	0.46	0.13	17,007	4.71	3.23	0.93	0.61	0.42	0.12
MASSACHUSETTS	52,057	3.70	2.59	0.71	0.40	0.24	0.15	30,249	2.06	1.37	0.51	0.18	0.16	0.12
NEW HAMPSHIRE	16,791	4.22	2.89	0.94	0.39	0.10	0.14	11,427	3.25	2.23	0.72	0.30	0.08	0.13
RHODE ISLAND	5,242	4.50	3.01	0.99	0.50	0.59	0.19	3,961	4.22	2.81	1.03	0.38	0.53	0.15
VERMONT	4,580	4.98	2.95	0.96	1.07	0.94	0.20	2,366	5.58	2.96	1.09	1.51	1.17	0.25
NEW ENGLAND	206,628	4.21	2.76	0.82	0.61	0.26	0.10	151,486	3.70	2.36	0.76	0.58	0.21	0.08
NEW JERSEY	252,469	6.15	4.24	1.12	0.80	0.91	0.15	148,137	3.64	2.51	0.66	0.37	0.33	0.07
NEW YORK	444,772	7.60	5.48	1.26	0.86	0.53	0.08	293,092	5.95	4.39	0.96	0.60	0.21	0.07
PENNSYLVANIA	287,606	6.68	4.81	1.12	0.95	0.73	0.21	143,407	4.43	3.18	0.63	0.62	0.28	0.12
MID ATLANTIC	984,847	7.03	4.97	1.19	0.87	0.68	0.13	584,636	4.96	3.64	0.80	0.54	0.25	0.08
ILLINOIS	214,792	9.58	6.00	1.58	2.00	1.60	0.39	59,365	3.32	2.32	0.52	0.48	0.40	0.12
INDIANA	189,678	7.52	5.37	1.32	0.93	1.10	0.33	62,456	4.10	2.81	0.90	0.39	0.39	0.13
MICHIGAN	445,481	7.42	5.01	1.15	1.26	0.89	0.39	224,564	4.02	2.81	0.67	0.54	0.35	0.18
OHIO	304,364	7.41	4.57	1.25	1.59	1.41	0.27	115,672	3.57	1.61	0.74	1.22	0.83	0.10
WISCONSIN	52,917	6.61	3.71	1.15	1.74	1.05	0.18	18,249	2.96	1.67	0.59	0.70	0.33	0.10
E.N. CENTRAL	1,206,452	7.80	5.07	1.28	1.45	1.19	0.34	480,326	3.79	2.41	0.70	0.68	0.47	0.15
IOWA	47,454	5.47	3.16	0.88	1.42	0.85	0.21	18,976	2.59	1.42	0.54	0.63	0.08	0.05
KANSAS	39,835	5.77	3.71	1.04	1.02	0.66	0.21	9,557	3.76	2.00	0.78	0.98	0.45	0.18
MINNESOTA	102,315	5.20	3.53	0.84	0.83	0.43	0.13	54,350	3.45	2.44	0.51	0.50	0.29	0.12
MISSOURI	90,238	5.72	4.04	0.92	0.76	0.44	0.27	9,883	2.75	1.95	0.48	0.31	0.22	0.14
NEBRASKA	58,677	4.34	2.64	0.87	0.83	0.55	0.19	32,541	3.11	1.77	0.77	0.57	0.58	0.23
NORTH DAKOTA	1,717	5.59	3.73	0.70	1.16	0.70	0.23	400	4.50	2.75	1.50	0.25	0.50	0.00
SOUTH DAKOTA	4,425	3.86	2.15	0.52	1.31	1.36	0.16	273	3.66	2.93	0.00	0.73	0.73	0.00
W.N. CENTRAL	404,661	5.26	3.47	0.88	0.81	0.53	0.19	126,282	3.20	2.04	0.69	0.56	0.34	0.14
DELAWARE	20,153	5.75	4.38	0.81	0.56	0.36	0.15	7,378	2.96	2.26	0.50	0.20	0.12	0.04
D.C.	11,900	8.13	5.91	1.34	0.88	1.19	0.24	3,719	4.57	3.23	0.67	0.67	0.73	0.24
FLORIDA	455,819	5.73	3.90	0.99	0.84	0.50	0.18	149,336	3.16	1.59	0.78	0.79	0.43	0.12
GEORGIA	162,065	6.34	4.51	1.06	0.77	0.44	0.30	37,777	3.51	2.62	0.49	0.40	0.25	0.18
MARYLAND	157,987	4.55	3.30	0.71	0.54	0.40	0.10	65,718	2.45	1.87	0.33	0.25	0.19	0.06
N.C.	162,080	4.84	3.61	0.72	0.51	0.31	0.10	32,764	2.30	1.74	0.34	0.22	0.12	0.06
S.C.	98,666	7.09	5.28	1.13	0.68	0.62	0.27	10,695	2.41	1.73	0.45	0.23	0.28	0.13
VIRGINIA	260,933	3.80	2.87	0.56	0.37	0.30	0.05	76,520	3.04	2.22	0.50	0.32	0.12	0.04
W. VIRGINIA	8,412	5.79	4.27	1.00	0.52	0.12	0.11	3,126	4.06	3.10	0.48	0.48	0.10	0.13
S. ATLANTIC	1,367,986	5.31	3.89	0.85	0.58	0.43	0.16	387,234	2.98	1.92	0.57	0.49	0.28	0.10
ALABAMA	122,730	7.32	4.87	1.37	0.88	0.69	0.59	17,532	3.24	2.38	0.48	0.37	0.29	0.27
KENTUCKY	71,650	6.56	4.63	0.93	1.00	0.82	0.17	9,688	3.92	2.95	0.50	0.46	0.55	0.16
MISSISSIPPI	65,531	6.04	4.23	0.97	0.84	0.31	0.22	19,644	4.38	3.29	0.61	0.48	0.07	0.13
TENNESSEE	130,190	6.64	4.53	1.03	1.08	0.54	0.22	34,547	3.29	2.35	0.43	0.51	0.12	0.11
E.S. CENTRAL	388,101	6.73	4.63	1.11	0.99	0.66	0.33	81,411	3.62	2.66	0.49	0.47	0.19	0.15
ARKANSAS	36,882	6.40	4.36	0.95	1.13	0.87	0.24	5,908	2.86	2.27	0.32	0.37	0.34	0.17
LOUISIANA	141,147	4.59	3.47	0.70	0.42	0.27	0.08	39,914	2.63	2.02	0.34	0.27	0.18	0.04
OKLAHOMA	100,266	4.82	3.31	0.71	0.80	0.27	0.15	20,016	2.97	2.09	0.45	0.43	0.20	0.09
TEXAS	652,679	5.99	4.09	0.89	0.84	0.14	0.14	165,226	3.16	2.31	0.47	0.38	0.08	0.10
W.S. CENTRAL	888,814	5.26	3.69	0.84	0.82	0.19	0.14	281,052	3.07	2.25	0.46	0.37	0.11	0.09
ARIZONA	203,523	5.72	3.89	1.08	0.76	0.58	0.24	67,011	3.54	2.18	0.82	0.44	0.51	0.20
COLORADO	241,817	7.80	5.67	1.05	0.88	0.39	0.14	94,152	6.80	5.61	0.68	0.51	0.23	0.09
IDAHO	43,662	6.42	4.40	1.08	0.94	0.89	0.42	19,402	6.09	4.34	0.88	0.77	0.58	0.32
MONTANA	12,099	5.84	3.73	1.14	1.07	0.97	0.35	1,803	3.11	2.44	0.39	0.28	0.17	0.06
NEVADA	59,137	7.47	4.77	1.39	1.31	1.24	0.50	11,680	4.72	3.02	1.09	0.61	1.33	0.69
NEW MEXICO	46,532	6.89	7.35	1.06	0.48	0.20	0.09	9,468	4.80	3.89	0.55	0.36	0.37	0.12
UTAH	75,012	7.56	5.32	1.24	1.10	0.96	0.33	22,908	5.26	3.51	0.87	0.88	0.94	0.30
WYOMING	13,362	6.37	4.17	1.00	1.20	0.86	0.28	3,650	4.46	2.85	0.68	0.93	0.63	0.25
MOUNTAIN	705,233	6.81	4.81	1.11	0.89	0.63	0.25	230,682	5.38	4.02	0.81	0.55	0.48	0.20
ALASKA	22,758	2.37	1.85	0.33	0.19	0.40	0.06	14,528	2.14	1.58	0.28	0.18	0.43	0.10
CALIFORNIA	857,182	5.06	4.08	1.04	0.94	1.04	0.19	278,740	4.13	2.82	0.69	0.62	0.93	0.13
HAWAII	59,459	4.75	2.97	0.82	0.96	0.42	0.12	46,055	4.44	2.89	0.77	0.98	0.39	0.15
OREGON	75,371	5.05	4.35	0.82	0.78	0.91	0.46	43,163	6.01	4.49	0.68	0.64	0.68	0.52
WASHINGTON	255,775	4.99	3.38	0.82	0.79	0.88	0.31	107,661	3.37	2.44	0.54	0.39	0.35	0.17
PACIFIC	1,393,543	5.72	3.85	0.97	0.89	0.92	0.23	490,147	4.10	2.84	0.67	0.59	0.71	0.18
PUERTO RICO	133,570	8.58	5.68	1.58	1.35	1.46	1.00	25,006	8.74	5.77	1.81	1.36	2.11	1.41
NORTHEAST	1,171,475	6.62	4.65	1.12	0.82	0.61	0.13	736,124	4.72	3.38	0.79	0.55	0.35	0.09
NORTH CENTRAL	1,813,113	7.10	4.67	1.16	1.31	1.05	0.30	606,608	3.65	2.34	0.69	0.65	0.43	0.14
SOUTH	2,677,910	5.54	3.85	0.85	0.69	0.37	0.18	719,907	3.09	2.12	0.52	0.44	0.21	0.10
WEST	2,949,776	6.10	4.30	1.02	0.89	0.91	0.23	739,939	4.02	3.22	0.72	0.58	0.64	0.16
U.S. TOTAL	9,302,663	6.25	4.39	1.05	0.89	0.67	0.20	3,004,366	4.07	2.82	0.69	0.56	0.39	0.14
U.S. TOTAL (S.A.)	NC	5.70	3.91	0.96	0.82	NC	0.22	NC	3.81	2.63	0.65	0.53	NC	0.14

NATIONAL DELINQUENCY SURVEY
OF 1- TO 4-UNIT RESIDENTIAL MORTGAGE LOANS

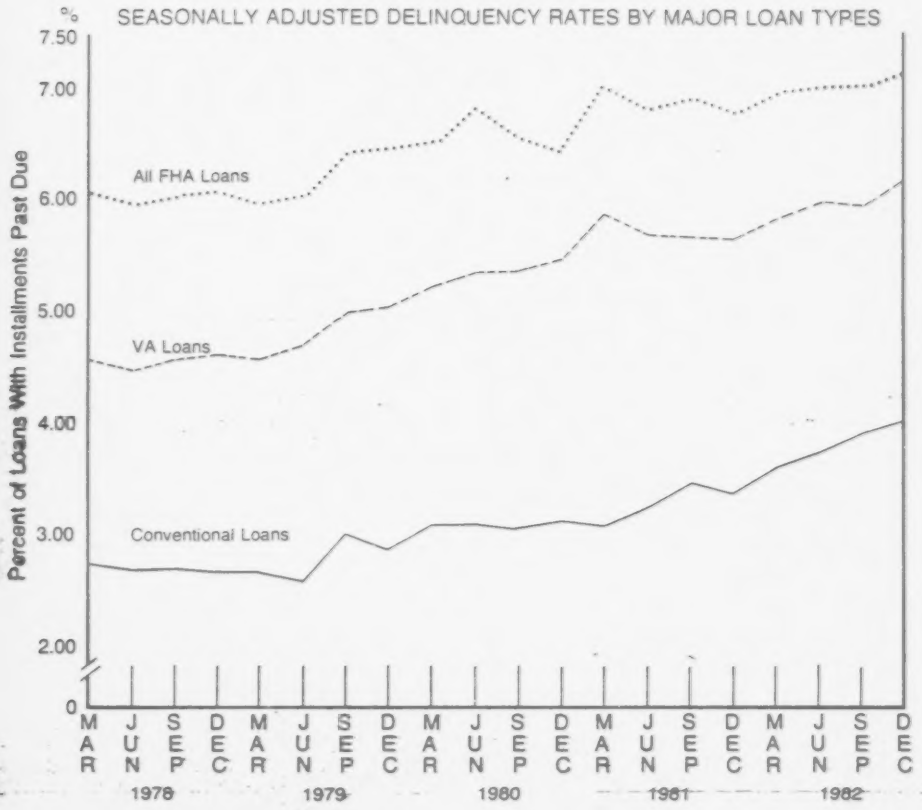
STATE, AREA AND CENSUS REGION	VA LOANS							ALL FHA LOANS						
	NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE		NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE	
		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER
CONNECTICUT	9,942	4.91	3.31	0.84	0.76	0.42	0.17	9,642	4.86	3.57	0.78	0.51	0.30	0.08
MAINE	3,226	5.41	4.49	0.93	0.99	0.59	0.09	1,703	5.87	4.76	1.41	0.70	0.53	0.23
MASSACHUSETTS	9,000	5.28	3.47	1.07	0.74	0.36	0.13	12,908	6.43	4.85	0.92	0.66	0.36	0.23
NEW HAMPSHIRE	4,013	5.97	4.73	1.52	0.72	0.15	0.20	1,351	4.36	3.03	1.11	0.22	0.15	0.00
RHODE ISLAND	402	5.72	4.48	1.00	1.24	1.49	0.50	859	4.77	3.26	0.81	0.70	0.47	0.23
VERMONT	1,439	3.69	2.78	0.76	0.35	0.56	0.14	755	5.17	3.18	0.93	1.06	0.93	0.13
NEW ENGLAND	28,022	5.47	3.89	1.02	0.76	0.40	0.16	27,118	5.71	4.20	0.91	0.60	0.36	0.17
NEW JERSEY	46,195	8.96	6.05	1.58	1.34	1.45	0.21	56,137	10.45	7.02	1.94	1.49	1.97	0.32
NEW YORK	52,068	8.68	6.30	1.57	1.01	0.74	0.08	59,582	12.10	8.47	2.02	1.61	1.44	0.13
PENNSYLVANIA	49,990	9.37	6.15	1.75	1.46	1.49	0.34	74,209	9.95	7.05	1.65	1.26	1.09	0.29
MID ATLANTIC	160,273	9.07	6.18	1.64	1.25	1.19	0.20	219,928	10.98	7.62	1.88	1.48	1.46	0.23
ILLINOIS	54,052	11.04	6.54	1.84	2.56	2.18	0.54	91,345	12.61	7.95	2.07	2.59	1.97	0.47
INDIANA	57,519	9.28	6.41	1.57	1.30	1.43	0.42	59,003	9.41	6.51	1.48	1.12	1.46	0.44
MICHIGAN	52,044	8.66	5.43	1.54	1.67	1.11	0.52	158,853	11.73	7.93	1.67	2.13	1.56	0.51
OHIO	95,579	9.65	5.31	1.65	1.69	1.66	0.39	92,133	9.70	6.46	1.49	1.75	1.67	0.36
WISCONSIN	12,940	8.18	4.54	1.48	2.15	1.08	0.14	21,726	8.73	4.93	1.44	2.36	1.64	0.28
E.N. CENTRAL	293,164	9.68	6.14	1.66	1.89	1.66	0.47	434,962	10.98	7.29	1.87	1.89	1.68	0.46
IOWA	13,593	7.95	4.34	1.28	2.33	1.57	0.46	14,883	6.84	4.30	0.98	1.56	1.17	0.20
KANSAS	16,574	6.21	4.08	1.12	1.03	0.88	0.20	12,704	6.59	4.53	1.13	1.03	0.80	0.24
MINNESOTA	47,526	6.32	4.20	1.05	1.07	0.49	0.18	80,438	5.87	3.98	0.96	0.93	0.51	0.08
MISSOURI	30,751	5.28	3.73	0.83	0.72	0.31	0.20	49,604	6.80	4.65	1.07	0.88	0.57	0.34
NEBRASKA	10,509	5.22	3.19	1.10	0.93	0.53	0.17	16,336	6.25	4.03	0.94	1.28	0.46	0.14
NORTH DAKOTA	497	3.62	2.82	0.40	0.40	0.00	0.00	620	7.20	4.76	0.48	1.95	1.22	0.48
SOUTH DAKOTA	1,516	3.35	2.17	0.58	0.62	0.93	0.25	2,536	4.41	2.05	0.55	1.81	1.70	0.12
W.N. CENTRAL	121,087	6.09	3.86	1.02	1.10	0.81	0.22	157,322	6.28	4.24	1.0	1.04	0.83	0.20
DELAWARE	5,375	7.11	5.19	0.99	0.93	0.54	0.13	7,399	7.54	5.69	1.00	0.65	0.46	0.27
D.C.	3,579	9.74	7.40	1.45	0.89	1.15	0.25	4,302	9.83	6.97	1.81	1.05	1.53	0.23
FLORIDA	116,251	6.11	4.31	1.00	0.80	0.52	0.21	156,222	7.53	5.47	1.16	0.90	0.55	0.20
GEORGIA	73,771	5.41	4.53	1.10	0.78	0.42	0.33	70,517	7.79	5.50	1.33	0.96	0.55	0.33
MARYLAND	51,420	5.28	3.80	0.88	0.61	0.44	0.10	40,729	6.85	4.85	1.09	0.91	0.68	0.17
N.C.	73,560	5.06	3.73	0.78	0.55	0.28	0.09	55,656	6.03	4.54	0.85	0.64	0.46	0.13
S.C.	36,553	6.25	4.56	1.03	0.66	0.55	0.26	49,217	6.77	5.62	1.36	0.79	0.75	0.32
VIRGINIA	113,453	3.72	2.82	0.53	0.37	0.29	0.05	70,980	4.71	3.63	0.66	0.42	0.53	0.07
W. VIRGINIA	2,587	7.83	5.57	1.60	0.66	0.19	0.12	2,719	5.85	4.39	1.03	0.44	0.07	0.07
S. ATLANTIC	488,649	5.42	3.82	0.87	0.63	0.41	0.16	488,721	7.05	5.18	1.09	0.79	0.59	0.28
ALABAMA	47,887	6.56	4.49	1.26	0.82	0.54	0.44	57,311	9.17	6.15	1.71	1.31	0.93	0.62
KENTUCKY	22,033	5.62	3.88	0.78	0.95	0.91	0.10	39,729	7.73	5.45	1.12	1.16	0.84	0.21
MISSISSIPPI	19,671	5.52	3.91	0.86	0.75	0.31	0.26	26,216	7.66	5.16	1.33	1.17	0.50	0.26
TENNESSEE	36,053	5.76	4.72	1.10	0.94	0.53	0.25	59,580	8.50	5.67	1.34	1.49	0.79	0.28
E.S. CENTRAL	125,644	6.31	4.39	1.08	0.87	0.67	0.39	183,840	8.41	5.70	1.40	1.31	0.86	0.43
ARKANSAS	13,146	7.45	4.85	1.09	1.54	0.72	0.27	18,639	6.91	4.75	1.08	1.08	0.74	0.23
LOUISIANA	47,650	4.22	3.17	0.68	0.38	0.28	0.07	53,563	6.38	4.62	1.00	0.56	0.38	0.12
OKLAHOMA	29,216	4.88	3.49	0.88	0.71	0.29	0.19	51,052	5.12	3.88	0.82	0.61	0.29	0.15
TEXAS	219,495	6.56	4.58	1.14	0.83	0.19	0.18	247,958	6.55	4.80	0.98	0.87	0.13	0.14
W.S. CENTRAL	309,511	6.05	4.39	1.06	0.76	0.35	0.17	369,212	6.24	4.71	0.97	0.85	0.24	0.16
ARIZONA	69,138	5.87	3.99	1.09	0.79	0.53	0.24	125,773	6.79	4.72	1.15	0.91	0.61	0.29
COLORADO	61,979	7.50	5.17	1.22	1.11	0.51	0.17	65,866	6.88	4.39	1.35	1.13	0.46	0.19
IDAHO	11,463	5.23	4.27	1.05	0.91	1.38	0.49	12,787	7.09	4.61	1.27	1.21	1.30	0.48
MONTANA	4,535	6.37	3.97	1.19	1.21	1.12	0.46	5,761	6.48	3.84	1.34	1.20	1.09	0.35
NEVADA	20,281	5.62	4.56	1.20	1.04	1.16	0.49	37,166	8.71	5.43	1.60	1.68	1.28	0.45
NEW MEXICO	13,292	9.19	7.71	0.99	0.49	0.12	0.09	23,572	10.36	8.52	1.31	0.53	0.18	0.09
UTAH	17,885	7.92	5.50	1.35	1.07	1.01	0.36	34,221	9.31	6.44	1.43	1.28	1.00	0.34
WYOMING	4,464	7.73	5.11	1.28	1.34	1.12	0.25	5,248	5.56	4.29	0.99	1.28	0.65	0.34
MOUNTAIN	223,037	6.99	4.86	1.17	0.95	0.88	0.25	311,514	7.98	5.61	1.29	1.08	0.70	0.28
ALASKA	4,800	3.06	2.27	0.52	0.27	0.36	0.10	3,428	2.42	1.98	0.29	0.15	0.35	0.00
CALIFORNIA	270,214	5.13	4.06	1.06	0.99	0.97	0.19	308,228	7.77	5.24	1.33	1.20	1.21	0.25
HAWAII	9,806	4.67	2.99	0.79	0.89	0.53	0.02	13,566	5.91	3.92	1.03	0.96	0.39	0.11
OREGON	9,003	5.54	4.32	1.08	1.15	1.54	0.50	26,205	5.83	4.12	0.84	0.87	1.08	0.32
WASHINGTON	48,864	7.03	4.41	1.20	1.42	1.22	0.54	99,250	5.77	3.90	0.95	0.92	0.79	0.35
PACIFIC	342,687	5.16	4.05	1.09	1.04	1.01	0.24	466,709	7.12	4.82	1.20	1.10	1.05	0.27
PUERTO RICO	23,202	9.66	6.34	1.88	1.84	2.23	1.13	66,363	8.17	5.47	1.44	1.26	1.09	0.84
NORTHEAST	169,299	8.82	6.01	1.54	1.18	1.07	0.19	247,058	10.30	7.26	1.77	1.27	1.34	0.23
NORTH CENTRAL	414,251	8.62	5.59	1.46	1.58	1.35	0.39	592,284	9.71	6.45	1.49	1.76	1.39	0.41
SOUTH	915,786	5.78	4.19	0.99	0.71	0.37	0.18	1,041,898	7.68	5.17	1.19	0.84	0.49	0.23
WEST	985,736	6.46	4.37	1.11	1.01	0.89	0.25	1,783,233	7.47	5.14	1.34	1.09	0.82	0.27
U.S. TOTAL	3,287,466	6.85	4.65	1.15	1.09	0.79	0.28	2,979,897	7.80	5.52	1.29	1.16	0.81	0.29
U.S. TOTAL (S.A.)	NC	6.18	4.19	1.07	0.92	NC	0.23	NC	7.14	4.92	1.17	1.07	NC	0.29

DATA ON 1- TO 4-UNIT RESIDENTIAL MORTGAGE LOANS AS OF DECEMBER 31, 1982 AND FOR 4th QUARTER, 1982

STATE, AREA AND CENSUS REGION	F.H.A. 235 and 237 LOANS							F.H.A. 245 LOANS						
	NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE		NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE	
		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER
CONNECTICUT	112	11.61	8.93	0.00	2.68	0.89	0.00	302	5.63	5.63	0.00	0.00	0.33	0.00
MAINE	297	12.79	7.74	3.37	1.68	0.34	0.34	5	0.00	0.00	0.00	0.00	0.00	0.00
MASSACHUSETTS	2,027	10.85	8.93	1.33	0.59	0.05	0.20	287	6.97	6.27	0.70	0.00	0.70	0.00
NEW HAMPSHIRE	62	9.68	3.23	4.84	1.61	0.00	0.00	73	4.11	2.74	1.37	0.00	1.37	0.00
RHODE ISLAND	114	7.89	5.26	1.75	0.88	0.00	0.00	253	4.56	3.80	0.76	0.00	0.00	0.00
VERMONT	45	11.11	6.67	2.22	2.22	2.22	2.22	223	4.94	4.04	0.90	0.00	0.45	0.00
NEW ENGLAND	2,657	10.98	8.47	1.62	0.87	0.15	0.23	1,153	5.47	4.86	0.61	0.00	0.43	0.09
NEW JERSEY	1,143	18.45	13.12	2.71	2.62	3.32	0.17	1,341	5.52	3.28	1.12	1.12	1.86	0.07
NEW YORK	763	19.00	11.66	4.72	2.62	0.92	0.00	356	12.85	8.20	2.46	2.19	1.69	0.00
PENNSYLVANIA	2,040	10.63	6.57	2.30	1.76	0.83	0.25	789	7.60	6.34	0.63	0.63	1.01	0.00
MID ATLANTIC	3,946	14.52	9.45	3.09	2.18	1.57	0.18	2,486	7.25	4.97	1.16	1.12	1.49	0.04
ILLINOIS	2,632	20.52	13.03	3.92	3.67	2.40	0.49	6,092	9.75	7.45	0.53	1.77	1.38	0.43
INDIANA	1,095	13.70	9.86	2.10	1.74	1.37	0.55	522	9.65	6.91	1.13	1.61	0.64	0.19
MICHIGAN	4,512	17.33	12.19	2.97	2.17	1.95	0.49	943	6.04	2.86	1.27	1.91	1.06	0.32
OHIO	3,471	12.59	8.95	1.93	1.70	4.67	1.50	2,836	8.81	5.43	1.62	1.76	1.76	0.32
WISCONSIN	1,564	13.29	8.47	2.04	2.88	1.56	0.16	1,999	6.00	3.25	1.20	1.45	0.80	0.15
E.N. CENTRAL	13,574	16.04	10.90	2.72	2.42	2.64	0.71	12,492	8.65	5.86	0.87	1.72	1.38	0.34
IOWA	884	10.46	7.62	1.52	1.32	0.41	0.00	1,834	8.24	4.53	1.15	2.56	0.98	0.22
KANSAS	334	13.47	9.58	2.69	1.20	0.00	0.00	1,412	6.58	3.90	1.13	1.56	0.28	0.07
MINNESOTA	1,436	10.10	7.58	1.60	0.91	0.28	0.14	4,407	5.22	3.61	0.93	0.68	0.57	0.00
MISSOURI	1,187	10.79	6.91	2.36	1.52	0.84	1.01	1,528	6.45	3.21	0.72	0.52	0.39	0.00
NEBRASKA	751	11.31	7.72	1.86	1.73	0.00	0.00	601	6.66	3.83	1.33	1.50	0.17	0.17
NORTH DAKOTA	170	2.94	2.35	0.00	0.59	0.00	0.00	89	13.48	12.36	1.12	0.00	4.49	2.25
SOUTH DAKOTA	75	10.66	5.33	1.33	4.00	2.67	1.33	140	7.14	2.14	0.71	4.28	0.00	0.00
W.N. CENTRAL	4,937	10.51	7.37	1.82	1.32	0.41	0.20	10,011	6.04	3.63	0.89	1.22	0.47	0.09
DELAWARE	74	17.56	14.86	2.70	0.00	0.00	0.00	27	0.00	0.00	0.00	0.00	0.00	0.00
D.C.	117	23.93	15.60	3.42	4.71	0.85	0.00	282	9.93	5.67	3.55	0.71	1.06	0.00
FLORIDA	12,524	11.50	8.27	1.86	1.37	0.60	0.25	7,204	6.98	5.40	0.96	0.62	0.79	0.56
GEORGIA	4,709	12.15	8.45	2.34	1.36	0.49	0.89	4,748	5.28	3.86	1.03	0.27	0.48	0.38
MARYLAND	179	14.52	10.61	2.79	1.12	0.00	0.00	4,119	5.62	4.56	0.73	0.53	0.49	0.05
N.C.	4,362	12.34	8.80	1.81	1.63	0.87	0.18	2,201	4.64	3.50	0.50	0.64	0.68	0.23
S.C.	2,684	16.48	12.84	2.23	1.41	0.71	0.43	1,006	5.28	4.08	0.60	0.60	0.89	0.40
VIRGINIA	2,568	10.91	8.41	1.60	0.90	0.70	0.16	5,541	4.19	3.18	0.63	0.38	0.69	0.05
W. VIRGINIA	104	14.42	12.50	1.92	0.00	0.96	0.00	0	0.00	0.00	0.00	0.00	0.00	0.00
S. ATLANTIC	28,321	12.43	9.10	1.97	1.36	0.64	0.39	25,128	5.61	4.29	0.84	0.49	0.68	0.26
ALABAMA	3,721	20.99	4.14	4.41	3.44	2.90	3.20	1,387	8.01	5.34	1.37	1.30	0.87	0.79
KENTUCKY	3,649	14.22	9.73	2.41	2.08	1.12	0.38	279	11.83	8.96	2.15	0.72	1.43	0.00
MISSISSIPPI	1,917	16.67	11.95	2.92	1.88	0.68	0.37	412	6.80	4.13	1.94	0.73	1.46	0.97
TENNESSEE	4,613	14.74	9.76	2.47	2.41	1.34	0.56	2,356	6.49	4.24	1.19	1.06	1.15	0.30
E.S. CENTRAL	13,900	16.64	10.98	3.04	2.54	1.61	1.19	4,434	7.33	4.67	1.20	1.05	1.11	0.56
ARKANSAS	720	8.25	5.39	1.10	1.79	0.27	0.55	597	10.05	6.20	2.01	1.84	2.51	0.17
LOUISIANA	5,292	9.40	7.01	1.63	0.76	0.40	0.40	971	3.81	2.78	0.72	0.31	0.39	0.00
OKLAHOMA	1,401	10.77	6.92	2.71	1.14	0.64	0.43	2,336	5.17	3.72	0.68	0.77	0.38	0.04
TEXAS	5,624	15.90	12.21	2.46	1.29	0.24	0.19	11,587	5.67	4.34	0.79	0.54	0.14	0.11
W.S. CENTRAL	13,045	13.65	9.79	2.15	1.13	0.39	0.29	15,489	5.04	4.22	0.61	0.61	0.39	0.10
ARIZONA	4,030	11.90	6.52	2.12	1.28	0.69	0.52	8,921	7.99	5.32	1.19	1.46	0.74	0.19
COLORADO	1,312	29.73	23.40	3.28	3.05	0.23	0.00	12,220	10.89	8.01	1.57	1.28	0.45	0.04
IDAHO	628	11.28	6.90	3.03	1.33	1.08	0.61	2,286	7.13	4.55	1.01	1.57	1.79	0.52
MONTANA	510	13.72	7.84	3.33	2.56	0.98	0.39	570	6.85	4.91	1.93	2.11	1.58	0.18
NEVADA	1,738	18.07	10.82	3.22	4.03	2.76	2.30	1,879	10.11	6.23	2.18	1.79	1.28	0.43
NEW MEXICO	1,124	33.55	16.07	5.52	1.95	0.09	0.36	696	18.82	16.38	1.29	1.15	0.29	0.14
UTAH	3,856	9.52	7.13	1.30	1.09	0.70	0.44	6,830	10.52	7.07	1.63	1.82	0.88	0.19
WYOMING	124	16.12	10.48	4.03	1.61	0.81	0.00	313	7.67	4.15	1.60	1.92	2.24	0.32
MOUNTAIN	13,540	15.66	11.21	2.54	1.85	0.89	0.66	33,715	9.62	6.66	1.47	1.49	0.78	0.17
ALASKA	7	0.00	0.00	0.00	0.00	0.00	0.00	220	7.73	6.36	0.45	0.45	0.91	0.00
CALIFORNIA	7,774	17.21	11.22	3.40	2.59	1.88	0.45	34,804	9.04	5.93	1.63	1.48	1.53	0.14
HAWAII	1,223	16.68	12.51	3.76	2.62	0.98	0.49	580	7.93	4.31	1.72	1.90	1.03	0.00
OREGON	625	8.64	5.60	2.24	0.80	0.96	0.80	1,765	7.60	4.82	1.42	1.36	1.70	0.45
WASHINGTON	2,791	13.29	9.46	2.29	1.54	0.90	0.90	8,409	7.95	4.54	1.40	2.01	2.03	0.24
PACIFIC	12,438	16.04	10.86	3.12	2.26	1.52	0.48	46,679	8.76	5.41	1.58	1.57	1.48	0.17
PUERTO RICO	5,140	16.74	11.26	2.89	2.69	1.40	2.14	0	0.00	0.00	0.00	0.00	0.00	0.00
NORTHEAST	6,660	13.89	9.66	2.38	1.85	1.89	0.39	3,949	6.89	4.88	0.86	0.77	1.15	0.69
NORTH CENTRAL	18,511	14.86	9.96	2.40	2.12	2.88	0.81	23,993	7.49	5.01	0.98	1.50	0.92	0.22
SOUTH	56,466	13.67	9.73	2.37	1.58	0.79	0.54	48,660	5.79	4.32	0.69	0.59	0.57	0.24
WEST	25,978	15.62	10.86	2.82	2.06	1.19	0.57	78,992	8.27	6.14	1.53	1.54	1.14	0.17
U.S. TOTAL	133,675	14.19	9.94	2.48	1.79	1.69	0.69	155,886	7.81	5.37	1.23	1.21	0.92	0.19
U.S. TOTAL (S.A.)	NC	12.85	8.63	2.38	1.78	NC	0.58	NC	n.a.	n.a.	n.a.	n.a.	NC	n.a.

MORTGAGE BANKERS ASSOCIATION OF AMERICA

NATIONAL DELINQUENCY SURVEY OF 1-4 UNIT RESIDENTIAL MORTGAGE LOANS
DECEMBER 31, 1982



SURVEY INFORMATION AND NOTES

1. This survey includes over 6 million mortgage loans on 1- to 4-unit residential properties totaling an estimated $240.3 billion of debt. These loans are serviced by more than 510 reporters, including mortgage bankers, commercial banks, savings banks, savings and loan associations, and life insurance companies.
2. A loan is considered 30 days delinquent if the December 1 installment has not been paid as of December 31. A loan is 60 days delinquent if the November 1 installment is unpaid as of December 31, etc.
3. "Foreclosure started during quarter" includes loans placed in the process of foreclosure during fourth quarter, deeds in lieu of foreclosure, and loans assigned to FHA, VA, other insurers or investors. "Foreclosure inventory, end of quarter" includes all loans in process of foreclosure on December 31. Both foreclosure categories are excluded from "total installments past due."
4. Not all reporters provide data on FHA loans by section, thus, the sum of the two types of FHA loan breakdowns will not necessarily equal the number of all FHA loans reported.
5. National totals include Puerto Rico loans and loans of firms not providing state-by-state data.
6. s.a.—seasonally adjusted data.
7. nc—not calculated.
8. Survey does not exhibit stable seasonal patterns.

CENSUS REGIONS

Annual subscription for nonmember firms is $25.00

MORTGAGE BANKERS ASSOCIATION OF AMERICA

NATIONAL DELINQUENCY SURVEY OF 1- TO 4-UNIT RESIDENTIAL MORTGAGE LOANS
DECEMBER 31, 1982

CENSUS REGION	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE															PERCENT OF LOANS FORECLOSURES STARTED DURING QUARTER		
	TOTAL PAST DUE			30 DAYS			60 DAYS			90 DAYS OR MORE			90 DAYS OR MORE (S.A.)					
		CHANGE FROM			CHANGE FROM			CHANGE FROM			CHANGE FROM			CHANGE FROM			CHANGE FROM	
	CURR QTR	YR AGO	QTR AGO	CURR QTR	YR AGO	QTR AGO	CURR QTR	YR AGO	QTR AGO	CURR QTR	YR AGO	QTR AGO	CURR QTR	QTR AGO		CURR QTR	YR AGO	QTR AGO
CONVENTIONAL LOANS																		
Northeast	4.72	0.24	0.04	3.38	0.14	0.02	0.79	(0.01)	(0.01)	0.55	0.11	0.03	0.53	0.01		0.08	(0.01)	0.00
North Central	3.68	(0.01)	(0.17)	2.34	(0.33)	(0.15)	0.68	0.05	(0.01)	0.66	0.27	(0.01)	0.63	(0.04)		0.14	0.02	(0.02)
South	3.08	0.63	0.44	2.12	0.25	0.15	0.52	0.16	0.11	0.44	0.22	0.18	0.40	0.14		0.10	0.03	0.02
West	4.52	0.99	0.69	3.22	0.69	0.63	0.72	0.11	0.01	0.58	0.19	0.05	0.56	0.02		0.16	0.04	0.03
U.S. TOTAL	**4.07**	**0.52**	**0.21**	**2.82**	**0.25**	**0.14**	**0.68**	**0.08**	**0.02**	**0.56**	**0.19**	**0.05**	—	—		**0.14**	**0.03**	**0.01**
U.S. Total (s.a.)	*3.81*	—	*0.02*	*2.63*	—	*0.02*	*0.65*	—	*(0.01)*	*0.53*	—	*0.01*	*0.53*	*0.01*		*0.14*	—	*0.00*
V.A. LOANS																		
Northeast	8.53	0.92	0.80	5.81	0.39	0.59	1.54	0.22	0.15	1.18	0.32	0.16	1.09	0.03		0.19	0.00	(0.03)
North Central	8.52	0.42	0.77	5.50	(0.04)	0.49	1.46	0.08	0.09	1.66	0.38	0.20	1.57	0.17		0.39	0.09	0.05
South	5.76	0.46	0.52	4.10	0.22	0.38	0.95	0.11	0.06	0.71	0.13	0.10	0.68	0.06		0.18	0.05	0.02
West	6.49	0.70	0.58	4.37	0.40	0.44	1.11	0.10	0.06	1.01	0.20	0.08	0.96	0.05		0.25	0.00	0.03
U.S. TOTAL	**6.88**	**0.64**	**0.67**	**4.88**	**0.33**	**0.48**	**1.15**	**0.11**	**0.08**	**1.00**	**0.28**	**0.10**	—	—		**0.28**	**0.05**	**0.03**
U.S. Total (s.a.)	*5.18*	—	*0.32*	*4.19*	—	*0.24*	*1.07*	—	*0.05*	*0.92*	—	*0.03*	*0.92*	*0.03*		*0.23*	—	*(0.02)*
ALL F.H.A. LOANS																		
Northeast	10.38	0.94	1.20	7.24	0.52	0.83	1.77	0.13	0.13	1.37	0.29	0.24	1.25	0.07		0.23	0.02	0.01
North Central	9.71	0.20	0.48	6.48	(0.09)	0.38	1.49	(0.07)	(0.11)	1.74	0.36	0.21	1.64	0.17		0.41	0.08	0.02
South	7.05	0.60	0.78	5.11	0.27	0.59	1.10	0.13	0.05	0.84	0.20	0.14	0.78	0.07		0.22	0.06	0.03
West	7.47	0.89	0.88	5.14	0.52	0.64	1.24	0.17	0.09	1.09	0.30	0.15	1.04	0.11		0.27	0.04	0.05
U.S. TOTAL	**7.98**	**0.96**	**0.82**	**5.53**	**0.23**	**0.46**	**1.29**	**0.08**	**0.01**	**1.15**	**0.25**	**0.15**	—	—		**0.30**	**0.06**	**0.04**
U.S. Total (s.a.)	*7.14*	—	*0.07*	*4.80*	—	*0.01*	*1.17*	—	*(0.03)*	*1.07*	—	*0.09*	*1.07*	*0.09*		*0.29*	—	*0.00*
F.H.A. LOANS (excluding 235 & 237)																		
Northeast	10.55	1.30	1.04	7.19	0.68	0.74	1.84	0.23	0.10	1.52	0.39	0.20	1.40	0.01		0.23	0.02	(0.03)
North Central	9.56	0.46	0.31	6.25	0.07	0.21	1.44	(0.07)	(0.16)	1.87	0.46	0.26	1.79	0.23		0.40	0.09	0.01
South	6.52	0.56	0.65	4.75	0.30	0.50	1.00	0.11	0.03	0.77	0.15	0.12	0.72	0.08		0.21	0.06	0.03
West	7.17	1.00	0.82	4.94	0.53	0.59	1.18	0.17	0.09	1.05	0.30	0.14	1.00	0.09		0.27	0.05	0.05
U.S. TOTAL	**7.82**	**0.89**	**0.57**	**5.39**	**0.34**	**0.44**	**1.21**	**0.08**	**0.00**	**1.12**	**0.34**	**0.13**	—	—		**0.29**	**0.06**	**0.03**
U.S. Total (s.a.)	*6.94*	—	*0.12*	*4.78*	—	*0.07*	*1.12*	—	*(0.03)*	*1.04*	—	*0.09*	*1.04*	*0.09*		*0.31*	—	*0.03*
F.H.A. LOANS (Section 235 and 237)																		
Northeast	13.09	(0.60)	1.09	9.09	(0.34)	0.67	2.38	(0.03)	0.10	1.66	(0.23)	0.09	1.60	0.01		0.20	(0.10)	0.03
North Central	14.58	0.27	1.27	9.98	0.05	0.96	2.46	(0.02)	0.15	2.12	0.23	0.16	1.96	0.08		0.61	0.12	0.17
South	13.57	1.91	1.46	9.72	0.79	1.32	2.27	0.52	0.08	1.58	0.60	0.09	1.46	0.01		0.54	0.32	0.10
West	15.82	5.39	4.51	10.95	3.68	3.33	2.82	0.67	0.64	2.05	0.84	0.54	1.93	0.46		0.57	0.06	0.20
U.S. TOTAL	**14.15**	**2.31**	**1.93**	**9.94**	**1.37**	**1.58**	**2.43**	**0.43**	**0.15**	**1.78**	**0.51**	**0.19**	—	—		**0.58**	**0.21**	**0.19**
U.S. Total (s.a.)	*12.65*	—	*0.97*	*8.63*	—	*0.53*	*2.26*	—	*0.14*	*1.76*	—	*0.30*	*1.76*	*0.30*		*0.56*	—	*0.13*
F.H.A. 245 LOANS																		
Northeast	6.69	1.58	1.22	4.93	1.28	1.53	0.99	0.04	(0.32)	0.77	0.28	0.01	—	—		0.03	0.00	(0.11)
North Central	7.49	1.09	0.77	5.01	0.80	0.91	0.98	(0.11)	(0.11)	1.50	0.30	(0.03)	—	—		0.22	0.13	0.04
South	5.79	0.59	0.82	4.32	0.55	0.69	0.68	0.03	0.03	0.59	0.01	0.10	—	—		0.24	0.17	(0.52)
West	9.21	1.79	1.24	6.14	1.07	0.91	1.53	0.29	0.08	1.54	0.43	0.25	—	—		0.17	(0.05)	(0.01)
U.S. TOTAL	**7.81**	**1.32**	**0.94**	**5.37**	**0.88**	**0.82**	**1.23**	**0.11**	**0.01**	**1.21**	**0.35**	**0.11**	—	—		**0.19**	**0.09**	**(0.14)**
U.S. Total (s.a.)	*n.a.*	—	—	*n.a.*	—	—	*n.a.*	—	—	*n.a.*	—	—	—	—		*n.a.*	—	—

*Seasonally adjusted series for 90 days or more and U.S. Totals are not available.

Statement of
Jerry C. Connors, President
Manufactured Housing Institute
On Behalf Of

The Coordinating Council On Manufactured
Housing Finance

(Accompanied by
Harvey E. Weiner, Esq.
Washington Counsel
Coordinating Council on Manufactured
Housing Finance)

April 21, 1983

Subcommittee on Housing and Memorial Affairs
of the Committee on Veterans' Affairs
U.S. House of Representatives

Hearings on Veterans Administration Housing Programs

Mr. Chairman and members of the Subcommittee, I am Jerry C. Connors, President of the Manufactured Housing Institute (MHI). I am here to support legislation that would authorize the Veterans Administration to guarantee a real property home loan on a manufactured home and lot where the home is on a permanent foundation. I speak on behalf of MHI and the Coordinating Council on Manufactured Housing Finance ("Coordinating Council"). Accompanying me today is our Washington Counsel, Harvey E. Weiner. The Coordinating Council is comprised of the three major manufactured housing industry trade associations. They are MHI, the national association representing approximately 80 corporations which manufacture homes and some 300 supplier firms which furnish components, services, and financing to the industry; the Western Manufactured Housing Institute, representing manufacturers and suppliers in the western United States; and the National Manufactured Housing Federation, representing 41 state and regional associations of manufacturers, suppliers, retailers, and park operators.

Although there are many ways to manufacture a home, the manufactured housing I speak of today is what has been historically known as the "mobile home." Because of vast improvements in quality, size, aesthetics, and construction techniques, the distinction between the so-called "mobile home"

and the traditional site-built home has diminished. Indeed, few manufactured homes are ever moved by their owners once they are located at their original site.

Manufactured homes are built according to the National Manufactured Home Construction and Safety Standards, a uniform, national preemptive building code, developed and enforced by the Department of Housing and Urban Development ("HUD"). The HUD manufactured housing code ensures that all manufactured homes are safe, durable and long-lasting.

In 1970, recognizing that this less expensive form of housing could provide the veteran with home ownership opportunities he otherwise might not realize, Congress authorized the Veterans Administration ("VA") to guarantee loans on manufactured homes and home and lot combinations. Since that time, there have been over one billion dollars worth of manufactured home loans guaranteed by the VA. In fact, the VA has assisted over 67,000 veterans in purchasing manufactured homes since the program began. This Subcommittee can take great pride in the major role it has played in bringing this affordable housing to veterans.

As I mentioned earlier, the distinction between manufactured housing and site-built housing has narrowed. A recently-issued regulation by HUD stated that:

> (t)he differences between manufactured homes and site-built homes have become blurred. Improvements in the design and construction of manufactured homes have enhanced their

> durability and acceptability in residential neighborhoods. Communities and some States have revised their zoning policies which previously relegated manufactured homes to mobile home parks. Permanently placed manufactured homes may now appreciate in value as do comparable site-built houses, rather than being considered to depreciate as they have in the past. This has resulted in jurisdictions reclassifying manufactured homes from chattels to real property status. Manufacturers are beginning to sell their manufactured homes through real estate developers rather than through dealers, and some private lenders offer mortgages on manufactured homes if they are permanently placed on the borrower's lot.

Such mortgages now are eligible for purchase by the two major national secondary mortgage market institutions -- the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"). Congress itself has acknowledged the emerging role of the industry by changing the term "mobile home" to "manufactured home" in federal law and literature.

We recommend then, that the VA home loan guaranty programs be permitted to accommodate these changes in the marketplace, so that a veteran may use his benefits to purchase a manufactured home and land, financed with a long-term real estate mortgage, where the home is permanently affixed to a lot by a permanent foundation and is considered to be real estate by the local jurisdiction.

We just recently have received a copy of the Subcommittee's bill, which amends Section 1810 to include manufactured homes.

We have not, however, had an opportunity to examine the proposed provisions of the bill closely. After we have reviewed it in greater detail, we would appreciate the opportunity to file a supplemental statement with the Subcommittee, and to work with the staff to perfect the wording of the legislation, if needed, to best meet the needs of the veteran.

Presently, manufactured home loans are guaranteed by the VA pursuant to Section 1819 of Title 38 of the United States Code. This guaranty provision is basically a 20-year loan term program. Homes which are personal property with or without land currently are eligible for the VA loan guaranty under Section 1819. Historically, most if not all manufactured home and land combinations have been financed on a personal property basis under this program. However, as we understand it, real property loans on manufactured homes and land currently also are eligible for guaranty under this intermediate-term loan program.

Today, loans for the purchase of single family, site-constructed homes are guaranteed under the provisions of the VA's Section 1810 program, which is the basic VA single-family long-term mortgage guaranty program. We urge the Subcommittee to adopt legislation which expressly would authorize the VA to guaranty manufactured home mortgage loans under Section 1810, the basic home loan guaranty program (which provides 30-year loan terms) where the home is permanently affixed to a site-built permanent foundation, and eligible for real estate-type financing.

We also recommend that the Subcommittee make clear the continuing availability of Section 1819 financing for shorter term loans on real estate manufactured homes.

We respectfully call your attention to a recent change made in this area by HUD. On April 6, 1983, by regulation, the FHA extended its basic single-family insuring program to purchasers of manufactured homes attached by a permanent foundation to a developed lot. Such homes also must meet other criteria as prescribed by the Secretary of HUD in the FHA regulations.

In considering proposed legislation, we urge the Subcommittee to preserve the option of the borrower to seek real estate financing for manufactured home and land combinations under either a 20-year, or a traditional 30-year, single-family mortgage insurance program. Legislation considered by the Subcommittee should preserve for the veteran and the lender the choice between these two programs. Preserving such freedom of program choice for the veteran is very important for several reasons. First, were legislation to require the veteran to use only the 30-year program for real estate-type loans, veterans and lenders in states where the classification of a manufactured home and land transaction is ambiguous as to its real property versus personal property status, would not know for certain whether such loans were in fact guaranteed. Lenders in such states might be reluctant to extend credit to veterans for such home purchases unless the Section 1819, 20-year program also

remained available to them. Second, the veteran should be permitted to choose either a quicker pay-off 20-year loan or a longer 30-year loan, depending on his needs and financial circumstances. Finally, preserving the intermediate-term loan program for real property manufactured home transactions, with its quicker pay-off and higher yield, will maintain the high flow of investment capital to this important housing market.

In sum, Mr. Chairman, we urge the Subcommittee to adopt legislation expressly permitting the guaranty of such loans under the 30-year Section 1810 program, while preserving the option of guaranty under Section 1819 as well.

We appreciate the interest of the Subcommittee in manufactured housing for veterans, and the opportunity to present the views of the Coordinating Council on Manufactured Housing Finance in this matter. We would be pleased to answer any questions you may have.

6790B-700

MANUFACTURED HOUSING NEWS
The affordable answer

FOR IMMEDIATE RELEASE

Contact: Patrick Di Chiro
Director of Public Affairs
703/979-6620

VETERANS SHOULD HAVE FREEDOM OF CHOICE IN VA
MANUFACTURED HOMES LOAN PROGRAMS, INDUSTRY SPOKESMAN SAYS

WASHINGTON, D.C., April 21, 1983 -- Manufactured homes affixed to permanent foundations and sold as real property should be eligible for Veterans Administration (VA) guaranteed long-term mortgages as well as already existing shorter term loans, a spokesman representing America's manufactured housing industry urged Congress today.

Testifying before the House Veterans Affairs Committee-Housing and Memorial Affairs Subcommittee, Jerry C. Connors, President of the Manufactured Housing Institute (MHI), said Congress should preserve the veteran's option to seek real estate financing for manufactured home/land combinations under VA-guaranteed 20-year or traditional 30-year programs.

Connors spoke on behalf of the Coordinating Council on Manufactured Housing Finance, which represents MHI, the Western Manufactured Housing Institute, and the National Manufactured Housing Federation.

In calling for the authorization of long-term VA financing for manufactured homes sold as real property, Connors noted that the Department of Housing and Urban Development (HUD) had recently extended its basic 30-year mortgage loan insurance to such homes. As of April 6, 1983, FHA Title II mortgage financing is now available for the purchase of manufactured (mobile) homes sold as real estate on approved permanent foundations, according to Connors.

Presently, manufactured homes that are sold without land (as personal property) are eligible for VA-guaranteed loans, typically with maturities of 20 years. Connors recommended that the subcommittee expressly authorize the continuing availability of these shorter-term loans for the purchase of manufactured homes sold as real estate.

"Preserving the freedom of program choice for the veteran is very important for several reasons," said Connors. "First, in some states the classification of manufactured homes as either real or personal property status is ambiguous, and thus would confuse both lender and borrower.

"Second, the veteran should be able to choose either the 20-year or 30-year payback periods, depending on his needs and financial circumstances. Finally, preserving the shorter-term loan program, with its quicker pay-off and higher yield, will help maintain the high flow of investment capital to this important housing market," Connors said.

MHI is the national trade association based in the Washington, D.C. area representing manufactured home builders and their supplier companies.

WITKOWSKI, WEINER, MCCAFFREY AND BRODSKY, P.C.
ATTORNEYS AT LAW
SUITE 350
1575 EYE STREET, N.W.
WASHINGTON, D.C. 20005
(202) 628-2000

SANFORD A. WITKOWSKI
HARVEY E. WEINER
R. LAWRENCE MCCAFFREY, JR.
JAMES A. BRODSKY
D. EDWIN SCHMELZER, P.C.
PETER E. KAPLAN

ALAN SCHNEEBERG*
RICHARD I. PEYSTER
ROBERT P. CHAMNESS
PETER A. GILBERTSON
FELICIA A. ALTMEYER
ARTHUR B. AXELSON
MARK H. SIDMAN

*ADMITTED IN CA. ONLY

April 26, 1983

Honorable Richard C. Shelby
Chairman
Subcommittee on Housing and Memorial Affairs
Committee on Veterans' Affairs
U.S. House of Representatives
Room 337
Cannon House Office Building
Washington, D.C. 20515

Attention: Ms. Gloria Royce

re: H.R. 2664

Dear Mr. Chairman:

On behalf of the National Manufactured Housing Finance Association ("NMHFA"), I appreciate this opportunity to submit for the record the views of the Association concerning H.R. 2664. The Association is concerned that certain provisions of this bill, if adopted, would restrict the Veterans Administration's ("VA") present guaranty authority under Section 1819, the VA's traditional manufactured home loan guaranty program, contrary to the bill's stated objective.

The NMHFA is an association primarily of lenders who finance the purchase of manufactured homes chiefly through the federal housing credit programs, including those of the Veterans Administration, the Federal Housing Administration ("FHA") and the Government National Mortgage Association ("GNMA"). Our law firm is Washington Counsel to the Association.

Specifically, we urge the Subcommittee to delete from H.R. 2664 paragraphs (b)(1) and (b)(3), so that 20-year financing for real property manufactured home and land loans may remain eligible for VA's guaranty under its Section 1819 program. Unless those provisions are deleted from the bill, the only real property manufactured home and land loans the VA could guarantee would be those qualifying for the comprehensive Section 1810 program, and veterans would be deprived of an important home financing option now available to them.

We urge the Subcommittee thus to preserve the VA's authority to guarantee both real and personal property manufactured home loans under Section 1819, for the following reasons, each of which is discussed in greater detail in the attached Association statement:

(1) The veteran must be permitted the choice of a more affordable real property manufactured home under Section 1819, without the additional construction and underwriting requirements -- and thus the additional costs -- likely to be imposed as a prerequisite for a loan's eligibility under Section 1810.

(2) State law provisions regarding the real or personal property status of manufactured homes vary, and in many cases are ambiguous. If Section 1819 is not kept intact, this uncertainty would deter lenders from making manufactured home loans in those jurisdictions, and could result in veterans' loans being ineligible for VA guaranty.

(3) Preserving to the veteran the freedom to choose a real property manufactured home loan under the Section 1819 20-year program permits the veteran to opt for a quicker loan pay-off, if the veteran's needs and financial circumstances permit.

(4) Real property loans for more moderately-priced manufactured homes, now made under Section 1819, would be less attractive for lenders under Section 1810 due to the lower servicing fees associated with that program, and thus will not be made as frequently under Section 1810. Since its inception, the Section 1819 program has been a very successful program for housing the low to moderate income veteran -- an enviable record which could be undermined if this bill were enacted with the aforementioned provisions.

(5) Preserving Section 1819 financing for veterans' real property manufactured home loans will increase the flow of investment capital to this important housing market.

Thank you for your consideration of the NMHFA's views on this legislation. Should you have any questions, please do not hesitate to contact us.

Sincerely,

James A. Brodsky

JAB/jc/6860B/246

enclosure

National Manufactured Housing Finance Association

Suite 350
1575 Eye Street, N.W.
Washington, D.C. 20005
(202) 628-2009

President and Chairperson of the Board of Directors

John J. Kolker
J.K. Financial Services, Inc.
Hinsdale, Illinois

Vice President

Don Coplen
First Financial Corporation
Waco, Texas

Board of Directors

Marvin J. Besteman
First Manufactured Housing Credit Corp.
Albany, New York

John A. Courson
Fort Wayne Mortgage Co.
Birmingham, Michigan

Gene P. King
The Colwell Company
Los Angeles, California

Edward A. Naff
Troy & Nichols, Inc.
Monroe, Louisiana

Donald G. Shirk
Shelter America Corporation
Aurora, Colorado

J.W. Westbrook
General Electric Credit Corporation
Atlanta, Georgia

Dan Winters
Southern Guaranty Corporation
Winter Haven, Florida

Statement of
The National Manufactured Housing
Finance Association

on H.R. 2664

Subcommittee on Housing and Memorial Affairs
of the Committee on Veterans' Affairs
U.S. House of Representatives

April 26, 1983

National Manufactured Housing Finance Association

Mr. Chairman and members of the Subcommittee, the National Manufactured Housing Finance Association ("NMHFA") appreciates this opportunity to submit for the record its views concerning proposed legislation to amend the Veterans Administration's ("VA") authority to guarantee manufactured home and land loans.

The NMHFA is a national association of lenders who finance the purchase of manufactured homes, primarily through the use of the federal housing loan programs including, but not limited to, those of the Federal Housing Administration ("FHA"), the Government National Mortgage Association ("GNMA") and the Veterans Administration. The members of the Association finance a substantial majority of the FHA-insured and VA-guaranteed manufactured home loans for which GNMA provides secondary market financing through its guaranty of manufactured home mortgage-backed securities. The membership of the Association also includes lenders who finance the purchase of manufactured homes by conventional loans, as well as insurance companies and investment banking firms which do business in the manufactured home area.

The Association notes that legislation has been introduced which would grant the VA express authority to guarantee, under its Section 1810, 30-year mortgage guaranty program, real property loans for the purchase of a manufactured home and land. The NMHFA wishes to present its views concerning the impact this legislation, if adopted, would have on the VA's present manufactured home loan guaranty program under Section 1819. Certain provisions of the proposed bill could be read to require that any real property loan, for the purpose of purchasing a manufactured home and a lot on which the home is to be permanently affixed, be guaranteed by the VA exclusively under Section 1810, thereby foreclosing to the veteran and the lender the option of submitting such loans for guaranty pursuant to the provisions of Section 1819.

The NMHFA urges the Subcommittee to preserve intact the VA's guaranty authority under Section 1819, which is the VA's traditional 20-year term manufactured home loan guaranty program, and expressly to make clear that real property loans for the purchase of manufactured home and land combinations will continue to be eligible for guaranty under this program.

The Section 1819 program has been tremendously successful. To date, the VA has assisted over 67,000 veterans in purchasing their own homes under this program. Both real and personal property loans made for the purchase of manufactured homes and land presently qualify for VA guaranty under the Section 1819, 20-year program, and, in fact, a number of real property loans have been guaranteed by the VA under the provisions of that section.

National Manufactured Housing Finance Association

The NMHFA is extremely concerned that legislation adopted by the Subcommittee in no way foreclose to the veteran and the lender the ability to obtain VA's guaranty of a real property loan for the purchase of a manufactured home and land under the 20-year provisions of Section 1819. Our Association is on record as favoring real/personal property combination loans under Section 1819. We would oppose legislation which in any way would restrict this authority.

Sections (b)(1) and (b)(3) of H.R. 2664 would limit existing VA authority under Section 1819 to guarantee real property loans on manufactured homes permanently affixed to land, by prohibiting such financing. Contrary to the stated purpose of the bill, these provisions will contract, not "expand," existing VA housing programs, and should be deleted.

For several reasons, each discussed in turn below, the NMHFA is of the firm belief that the interests of the veteran best are served by preserving to the veteran the option of purchasing a real property manufactured home pursuant to the 20-year VA loan guaranty provisions of Section 1819.

First, because a manufactured home and land combination may qualify for a real estate mortgage loan where the home is permanently sited, yet does not meet every aspect of the more demanding underwriting criteria which a 30-year loan guaranty program presumably would impose, VA's Section 1819 must remain available for the guaranty of real property manufactured home loans. This serves the important goal of permitting the veteran to choose a more affordable home by keeping down the cost of that home. In jurisdictions which recognize permanently-affixed manufactured homes as real property, if the Section 1810 guaranty were exclusive, the veteran would have to pay a higher initial price for the home with the improvements necessary to meet the additional construction-related criteria which the VA is expected to impose as a prerequisite to eligibility under the 30-year loan guaranty program, but which are not required under the 20-year program.

Second, the veteran should not be penalized by ambiguous state law property distinctions. Provisions governing the status -- real or personal property -- of permanently-sited manufactured homes vary from jurisdiction to jurisdiction, and in many cases are ambiguous. Where the local real/personal property classification provisions are unclear, or cannot readily be clarified by a title opinion, a manufactured home and land combination, originally believed to be a real (or personal) property transaction, ultimately could be determined to be personalty (or realty) by the jurisdiction. Thus, if real property loans for permanently-sited manufactured home

units and land were permitted to be guaranteed exclusively under Section 1810, and only personal property loans could be guaranteed under Section 1819, a loan could result in being ineligible for guaranty under either Section due to their mutual exclusivity as the bill presently is drafted. Where state law is unclear, the lender and the veteran must have the option of making a real property loan for the purchase of a home and land combination under the VA's Section 1819 program, even though it may appear to be eligible under Section 1810. Absent this option, lenders would be reluctant to make VA-guaranteed manufactured home loans in jurisdictions where state property classifications are ambiguous.

Third, preserving to the veteran the freedom of choice of a real property manufactured home and land loan guaranteed under the Section 1819, 20-year program permits the veteran to choose a quicker pay-off of the loan if the veteran's needs and particular financial circumstances indicate that this is desirable.

Fourth, real property loans for more moderately priced manufactured homes, guaranteed under the Section 1810 program, may not be attractive to lenders due to the lower servicing fees associated with that program. Real property loans for such homes are, however, readily made by lenders under the Section 1819 guaranty provisions.

Finally, preserving Section 1819 financing for veterans' real property manufactured home loans will increase the flow of investment capital to this important housing market. From an investment marketing point of view, the shorter term loans guaranteed under Section 1819, whether sold on a whole loan basis or as GNMA securities, which typically have a shorter average life, more rapid payoff and a higher yield, are more attractive to investors than other longer term obligations, thus contributing to an increased flow of capital for the financing of veterans' housing.

For all these reasons, the NMHFA urges the Subcommittee to strike paragraphs (b)(1) and (b)(3) of H.R. 2664 which would restrict existing legislative authority for VA's guaranty of real property manufactured home and land loans under Section 1819. This will leave the language of the bill consistent with its stated objective, "to expand the availability of loans guaranteed by the Veterans' Administration for the purchase of manufactured homes that are permanently affixed to a lot."

The NMHFA appreciates the opportunity to submit this statement for the record to the Subcommittee.

6824B/246

WITKOWSKI, WEINER, MCCAFFREY AND BRODSKY, P.C.
ATTORNEYS AT LAW
SUITE 350
1575 EYE STREET, N.W.
WASHINGTON, D.C. 20005
(202) 628-2000

SANFORD A. WITKOWSKI
HARVEY E. WEINER
R. LAWRENCE MCCAFFREY, JR.
JAMES A. BRODSKY
D. EDWIN SCHMELZER, P.C.
PETER E. KAPLAN

ALAN SCHNEEBERG*
RICHARD I. PEYSTER
ROBERT P. CHAMNESS
PETER A. GILBERTSON
FELICIA A. ALTMEYER
ARTHUR B. AXELSON
MARK H. SIDMAN

*ADMITTED IN CA. ONLY

May 4, 1983

Ms. Gloria Royce
Subcomittee on Housing & Memorial Affairs
House Committee on Veterans Affairs
337 Cannon House Office Building
Washington, D.C. 20515

Dear Ms. Royce:

During the Subcommittee hearing on H.R. 2664, witness Jerry Connors was asked about the treatment in the various states of a lien on a manufactured home when the home is attached to a lot by a permanent foundation. Specifically, the Subcommittee inquired which states treat such a home as personal versus real property.

At least three states that we are aware of -- California, Florida and Texas -- have addressed this question by statute and consider such homes to be real property. Mississippi has also addressed this issue by statute and has decided to treat such homes as personal property in all cases, notwithstanding the manner in which the manufactured homes are affixed to the realty. However, in the vast majority of states, where common law rather than statutory regulation controls, a manufactured home which is permanently affixed to a lot is considered to be a land improvement and thus would be treated as real property, or a real property "fixture."

To our knowledge, there is no readily available information which surveys the status of such lien treatment in all of the states or the practice of securing such loans. We understand that practices may even vary among different lenders in the

same state as a result of the ambiguous treatment of these types of security interests on manufactured homes affixed to lots. There may also be some variance between different counties within a particular state.

In order to address this exact problem, both the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation have adopted procedures for establishing to their own satisfaction that a lien on the manufactured home and lot constitutes a lien on real estate (see attached copies of the relevant FNMA and FHLMC materials). Of particular importance to both organizations is the title insurance policy or opinion of counsel insuring the lienholder's interest as an interest in real property.

To give you some idea of the variation between states in the treatment of manufactured homes and the manner in which such homes are treated for property taxation purposes, we have enclosed for the record a survey of state manufactured housing taxation which appears in: T. Nutt-Powell, Manufactured Homes 111 (1982).

We will endeavor to research more fully the state-by-state lien status of permanently affixed manufactured homes and forward to the Subcommittee our findings as soon as that information is available and compiled. On behalf of the Coordinating Council on Manufactured Housing finance, we wish to express our appreciation for the Subcommittee's interest in manufactured housing and for the opportunity to comment on H.R. 2664.

Sincerely,

Harvey E. Weiner/mkw

Harvey E. Weiner
Washington Counsel

HEW/mar/6920B-700

Enclosure

FEDERAL NATIONAL MORTGAGE ASSOCIATION FNMA

August 20, 1981

TO: All FNMA Sellers

SUBJECT: Manufactured Housing

This letter defines the criteria for acceptability of FHA, VA and conventional mortgages secured by manufactured housing and establishes the procedures for submitting these mortgages to FNMA for purchase.

Eligibility

Mortgages secured by manufactured housing units legally classified as real property can be submitted under any of FNMA's purchase programs.

Unless otherwise noted, submission and purchase of these mortgages will be governed by the applicable provisions of the FNMA Selling and Servicing Contract Supplements and Seller/Servicer letters implementing new purchasing programs, not yet incorporated in the Contract Supplements.

In addition, the following requirements must be met for all types of mortgages:

A. The manufactured housing unit must be permanently affixed to a foundation and assume the characteristics of residential property.

B. If manufactured as a mobile unit, the wheels and axles must be removed when the unit is permanently sited.

C The purchase of the land and home must represent a single real estate transaction under state law and must be evidenced by a recorded mortgage or deed of trust. (The combination of a chattel and real estate mortgage is not eligible.) The appropriate 1-4 family FNMA/FHLMC Uniform Instruments, or other documents acceptable to the FNMA regional office, must be used for conventional loans and the mortgage or deed of trust must include an identification of the unit by manufacturer, model and serial number.

D. The required title insurance policy must identify the unit as part of the real property and must insure against any loss sustained should the manufactured home be determined not to be part of the real property and that the insured mortgage is prior and superior to all other recorded real property or personal property liens or claims.

E. The mortgage amount must not include the financing of furniture (except for kitchen/laundry appliances and carpeting) credit life insurance, property damage insurance or any other form of insurance.

F. The unit and land package must be taxed as real property except that, in those jurisdictions where real estate taxation is prohibited by law, FNMA will consider submissions where the unit is taxed as personal property.

G. The Seller must obtain from the borrower, and retain in the loan file, a written "acknowledgement of intent" specifying that it is the borrower's intent that the unit be a fixture and part of the real property securing the mortgage. The form and content of this acknowledgement may be drafted by the Seller.

An eligible manufactured housing unit may be either a single-section or a multi-section unit located on an individually owned lot, a leasehold estate acceptable to FNMA, or, in the case of a conventional mortgage, in an approved condominium, PUD, de minimus PUD or subdivision. However, the FNMA regional offices may establish additional specific property guidelines based on the marketability and comparability of the unit.

Mortgages secured by manufactured housing units and insured by FHA under Title II of the National Housing Act or guaranteed by VA under Section 1810 are eligible for purchase by FNMA; however, mortgages insured by FHA under Title I or guaranteed under the VA Mobile Home Program are not eligible at this time.

Warranties

By submitting a manufactured housing loan to FNMA for purchase, a Seller will be considered to warrant, in addition to the warranties contained in the appropriate Contract Supplements, that the unit was built in accordance with the applicable state or local building code, or industrialized housing building code and, if the unit was manufactured as a mobile home it was built under the Federal Mobile Home Construction and Safety Standard (Title VI, Housing and Community Development Act of 1974).

A Seller is reminded of its warranty that the mortgage is not usurious in the state where the property is located. In this regard, if the eligibility requirements "A" through "D" above are met, the mortgage may be treated as a mortgage secured by residential real property for purposes of Section 501 of the Depository Institutions Deregulation and Monetary Control Act. A copy of the Federal Home Loan Bank Board's interpretive ruling is attached for your information.

Delivery for Purchase

Pending a revision to the Mortgage Submission Voucher, FNMA Form 305, manufactured housing loans submitted for purchase should be identified by inserting the designation "MH" in Block 18 (GNMA Program Number) of the Form 305.

Mortgages secured by manufactured housing units will be eligible for submission under FNMA's Accelerated Delivery Program, but Sellers should be aware that mortgages submitted without the title policy will be closely monitored by FNMA to ensure that the title policy is delivered within the prescribed time frame and that it conforms to eligibility requirement "D" above.

Unit Approval

FNMA will discontinue its formal program of reviewing a manufacturer's model plans and specifications, and cease publication of listings of approved models. Lenders may submit applications for FNMA approval of condominiums, PUD's, de minimus PUD's and subdivisions under the same procedures as applicable to site-built housing.

Additional Information

Sellers may contact their FNMA regional office for clarification of any of our program requirements.

John J. Deisher
Regional Vice President

Attachment

† **g. Type of Structure.** The Mortgaged Premises must consist of a detached or semi-detached dwelling, row dwelling, townhouse, a unit within a Condominium Project, or a dwelling unit within a PUD, undamaged by fire, windstorm or other casualty. Construction of the Mortgaged Premises, including subsurface facilities, must be completed as of the Delivery Date. In the event the improvements cannot be completed for valid reasons, such as inclement weather, an adequate escrow for the uncompleted items must be established. The principal residence comprising the Mortgaged Premises must not be a vacation property or a seasonal property. FHLMC may determine, in its sole discretion, whether the Mortgaged Premises falls within any of the foregoing categories. The Mortgaged Premises must be in conformance with all applicable zoning and use restrictions and building and housing codes. The Mortgaged Premises must also enable the mortgage to qualify as a "Residential Mortgage" as defined in Section 302 of the Emergency Home Finance Act of 1970, and Section 7701(a)(19)(C)(v) of the Internal Revenue Code and rules and regulations promulgated under each such section.

A mortgage on a unit in a Class I condominium project or PUD will not be eligible for sale to FHLMC, unless at least eighty percent (80%) of the units sold in the condominium project or PUD have been sold to individuals for use as their primary year-round residence. In a Class II condominium project or PUD, at least sixty percent (60%) of the units must be occupied by unit owners as their Primary Residence.

FHLMC will consider the purchase of loans secured by manufactured housing, as defined in the National Housing Construction and Safety Standards Act of 1976, if the following eligibility requirements are met:

(i) the manufactured housing unit must be permanently affixed to a foundation;

(ii) the land must be owned in fee simple or an acceptable leasehold estate, meeting the requirements of Section 3.206 of this guide;

(iii) the land and improvements must be real estate under applicable law; the loan must be evidenced by the appropriate FNMA/FHLMC Uniform Note and recorded FNMA/FHLMC Uniform Mortgage or Deed of Trust; in addition, other forms of security, such as a U.C.C. filing, are not required but are permitted if Seller deems it necessary to assure FHLMC's first lien priority;

(iv) the Mortgaged Premises must be taxed as real estate by the jurisdiction where it is located if at the time of loan closing such taxation is permitted under state law;

(v) the mortgage must be covered under a standard real estate title insurance policy or attorney's title opinion or certificate that (a) identifies the unit as a part of the real property, (b) insures or indemnifies against any loss should the manufactured unit be determined not to be a part of the real property, and (c) meets all other requirements stated in Section 3.202 of this guide;

(vi) the manufactured housing unit must conform to the National Manufactured Housing Construction and Safety Standards, promulgated by the Department of Housing and Urban Development;

(vii) in addition, Seller should take such other steps as it deems prudent in order to assure itself that all of the property securing the loan is real property; an example of such a step would be to require an "evidence of intent" from Borrower if state law requires that there be such intent for a fixture to become real property.

In addition to the above, the loan must be underwritten in accordance with FHLMC guidelines, which provide, in part, that (i) the site be served by utilities and off-site improvements that meet community standards; (ii) the property be in conformity with all applicable zoning and use restrictions; (iii) the property is zoned residential; (iv) the materials and construction of the improvements are acceptable in the area; (v) the appraisal report demonstrates the marketability of the property and its appeal in the marketplace.

h. Amortization. Each mortgage must provide,

Table 5–8 Taxation of MHs

State	Property Tax			Sales Tax	
	Personal	*Real*	*In Lieu*	*Original Sale*	*Subsequent Sale*
AL	If not affixed (20% FMV, 10% if owner-occupied)	If affixed•		1.5% state•• plus registration	Vendor only
AK	If not affixed	If affixed•		0%–6% local, varies (median, 3%, 1978)	
AZ	If single-section *and* if not affixed	If multisection *and* If affixed• (from 1979)	Until 1978	4% state + local (on 60% of price)	None
AR	If not affixed	If affixed		3% state•• + local	None
CA		If purchased after July '80	Before July 1980	6%–6.5% state and local; based on 60% if affixed & on 80% if not	Same
CO	If not affixed	If affixed (30% of value)		3% State; 0.5% local option; on 52% of price	None
CT	If not affixed	If affixed•		7% State; 7.5% July '80	Vendor or casual
DE	None (even if not affixed)	If affixed		2% document fee upon titling	2% retitling except if affixed
DC	Not applicable	Not applicable		None	None
FL	None	If affixed, choice: license or real property	License fee, by size	4% state•• upon titling and register; $/size	Upon retitling or transfer of title; if affixed: deed tax

Table 5–8 (cont.)

State	Property Tax			Sales Tax	
	Personal	Real	In Lieu	Original Sale	Subsequent Sale
GA	If not affixed	If affixed*		3% state; 1% local (opt)	Vendor only; (transfer and recording tax if affixed)
HI		If affixed			
ID		All MHs		3% on 55% of purchase price	None
IL		If affixed	Privilege tax if not affixed	4% state; up to 2% local plus registration fee	Same, except if affixed
IN	If not affixed	If affixed		4% state	Vendor only
IO	If not affixed	If affixed		3% state plus registration fee	Vendor only
KS	If not affixed	If affixed*		3% state	Vendor and occasional
KY	If not affixed	If affixed	Excise tax on first registration	5% state	Vendor only
LA	None	If affixed		3% state** (titling) plus local tax	Upon retitling
ME		All MHs	Excise, if registered for road movement	5% state	None
MD	If not affixed	If affixed		5% state	5% upon retitle
MA	None	If affixed	Local $6–12/ month	5% state	Vendor only

MI	None	If affixed	$3/mo for MII in parks	4% state	None
MN	If not affixed or affixed but land not owned	If affixed*		4% state	Vendor only
MS	If not affixed	If affixed*		3% state on home; 5% on furnishings	None
MO	If not affixed	If affixed		3⅛% state** plus local	Vendor
MT	If not affixed	If affixed*		None	None
NE	If not affixed or not on owned land	If affixed		3% state**; up to 1% municipal use	Vendor only
NV	If not affixed	If affixed* (from 7/1/79)		2% state, 1% school, .5% local	Vendor only
NH	If not affixed	If affixed*		None	None
NJ		All MH (from 1979)	(until 1979)	5% state	5% state if affixed
NM		All MHs		Gross receipts and compensating tax 3.75% state and up to .75% local (optional)	Only MHs initially sold before 4/79
NY		All MHs		4% state plus local (up to 8% total)	Vendor and casual
NC	All MHs			2% state** plus local	Vendor only
ND	None	If affixed*	"Decal" for all MHs, except if on farm	None	None

Table 5–8 (cont.)

State	Property Tax			Sales Tax	
	Personal	*Real*	*In Lieu*	*Original Sale*	*Subsequent Sale*
OH			Privilege tax	4% state plus local option	Vendor and casual
OK	None	If affixed	$25 plus $.75/100 of value in excess of $1500, devalued 5% annually	2% excise tax in lieu of sales tax	Vendor or retitle
OR	*Ad valorem* on 100% true cash value	If affixed*		None	None
PA	(varies by county)			A realty transfer tax of 1% (state) and 1% (local, optional) is collected at sale/resale of MH classified as real property; if unaffixed then MH is subject to 6% state sales tax on any original and subsequent sales	
RI	If not affixed	If affixed		6% state**	Vendor only
SC	None	All MHs; 4% of FMV if owned; 6% if leased		4% state**	Vendor only
SD	None	If affixed	Decal, based on full market value	3% registry	No sales tax, but 3% registry fee if retitled
TN	None	On 25% FMV		4.5% state plus local up to 6% total	Vendor or retitle

TX	If not affixed	If affixed		4% state; 1% local plus transit tax	Vendor/casual
UT		All MHs		4% state, 3/4% local, 1/4% selected counties	Vendor only
VT		All MH		Vendor/contractor; 3% state	Vendor only; 3% state
VA	All MH			3% upon titling	3% upon retitling
WA	If not affixed	If affixed		5.1% to 5.3% (4.3% state; .5% local; .1–3% transit)	1% excise tax
WV	If not affixed or if affixed on non-owned land	If affixed*		3% state or 3% use tax**	Vendor only
WI	If not parking fee and does not meet 50% test	If assessable value of attachments, foundations, etc. = or exceeds 50% of value of the unit	Monthly parking fee (some municipalities in MH parks)	4% state**	At time of registration
WY	If not affixed	If affixed*		Vendor 3% state + up to 1% county (optional); (on 60% of invoice)	Same (depreciated invoice base)

SOURCE: Nutt-Powell, Thomas E., and Michael Furlong, with Christopher Pilkington. 1980. *The States and Manufactured Housing.* Cambridge, Mass.: Joint Center for Urban Studies, pp. 34–38.

* On owner-occupied land.
** Use tax also.

STATEMENT OF
JOHN F. HEILMAN
NATIONAL LEGISLATIVE DIRECTOR
DISABLED AMERICAN VETERANS
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
OF THE
HOUSE VETERANS AFFAIRS COMMITTEE
APRIL 21, 1983

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

On behalf of the over three-quarters of a million members of the Disabled American Veterans, may I say that we appreciate this opportunity to present our views on matters pertaining to the Home Loan Guaranty Program of the Veterans Administration.

In your invitation to testify, Mr. Chairman, you indicated that today's hearing would center upon legislation that would provide financial relief to veterans who have residential home loans that have been guaranteed by the Veterans Administration and who are in default of payments and facing possible loan foreclosure and upon legislation that would permit substitution of a veteran's home loan entitlement when the veteran "transferee" is not an immediate transferee.

Mr. Chairman, at the time this testimony was prepared, the foreclosure relief legislation had yet to be introduced in the Congress, nor was a draft copy of the bill available for perusal. Therefore, on this issue, I shall offer for comment possible

courses of action the Subcommittee might wish to consider and pursue. Draft legislation was available regarding the second proposal mentioned above and I shall comment upon that draft bill.

Home Foreclosure Relief

Mr. Chairman, there is no doubt that one disastrous effect of our nation's troubled economic climate and high rate of unemployment is a significant increase in the number of delinquent payments on residential mortgages--many resulting in loan foreclosure. Ownership of one's home has always been an obtainable part of the "American dream" and it is indeed terrible to contemplate the vision of thousands of American families being forced out on the street--many never to again know the peace and security of sleeping under a roof that they can call their own.

Our organization has been given no official mandate by its national membership in Convention assembled on this subject. However, if polled on the issue, I am certain that the vast majority of DAV members would favor the enactment of legislation to provide assistance to financially disadvantaged veterans who are facing the prospect of having their VA guaranteed home loans foreclosed upon by a lending institution.

We offer the following suggestions as possible provisions of such relief legislation:

The threshold conditions upon which to base eligibility for assistance--the Subcommittee might wish to make the assistance available to veterans and the survivors of veterans with VA guaranteed loans who have become financially disadvantaged to the extent that they have become delinquent in making all or a substantial portion of six consecutive monthly mortgage payments.

We believe the period "six months" is appropriate as it is our understanding that lending institutions generally do not initiate serious foreclosure action on a loan until the payment arrears have continued for six consecutive months. Also, the threshold of six months would preclude assistance applications from those whose conditions of financial disadvantage are only temporary and, therefore, not likely to lead to foreclosure action.

We are aware that some proponents of this type of legislation believe that it should specifically state that assistance shall not be rendered unless the veteran homeowner is unemployed--having as a possible "yardstick" of eligibility the receipt of unemployment benefits. While being out of a job can certainly cause a veteran to become delinquent in mortgage payments, we

nonetheless believe that this type of criterion is too restrictive. We can envision other circumstances that can place individuals in a severe economic bind--a catastrophic and costly illness, for example--that can just as easily cause payment arrears.

Therefore, we believe that a basic and simple criterion such as being delinquent in payments for six consecutive months is the most fair and equitable way in which to address eligibility.

Type of assistance--in our opinion, assistance should be provided in the form of direct mortgage payments to the lending institution by the Veterans Administration. As this assistance would come into being at a point where the homeowner is six months in arrears of mortgage payments, the initial payment (by the VA) should cover that total amount. We then suggest continuing VA payments for a set period of time--another six months--giving a full year of assistance. Perhaps the Subcommittee might also wish to consider providing the Administrator with the authority to extend assistance beyond the basic one year period under specified conditions. Obviously a "cap" on the total amount of assistance must be instituted and we leave this to the discretion of the Subcommittee.

One final point: some veteran homeowners would most likely be able to make partial payments of their own during the period of VA assistance. This should be encouraged and we suggest that the legislation allow for this to occur and that, in such cases, the veteran's portion of the mortgage payments not be counted in terms of the maximum VA assistance that is authorized.

Repayment of assistance--we do believe that the VA mortgage payments on behalf of veterans should be regarded as loans and that repayment to the government be required. Given the precarious financial position on the part of veterans receiving this assistance, we suggest liberal repayment conditions with interest rates that are not higher than the prevailing rate being charged.

Source of VA funding--for the source of this assistance we suggest using monies from the VA's Revolving Fund for Direct Loans. As this Fund has not been utilized by the VA to any great extent in recent years, the $300 to $350 million presently contained therein could be utilized for this purpose. Repayment of loan assistance and interest charged to veterans should, of course, be credited back into the Fund.

Duration of assistance program--we suggest that the Administrator be granted the authority to provide mortgage foreclosure assistance for a set period of time, perhaps two

years. Of course, prior to program termination, the Congress could reevaluate and consider possible extension of the program.

Draft Bill on Substitution of Veterans Home Loan Entitlement

This Administration proposal would amend Section 1802(b)(2) of Title 38, USC and in so doing permit the substitution of a veteran's home loan entitlement when the veteran is not an immediate transferee.

Mr. Chairman, under current law, when a veteran who has VA loan guaranty entitlement purchases a home previously guaranteed by the VA and assumes the existing mortgage loan, the veteran "buyer" can substitute his entitlement. This substitution releases the veteran "seller" from his obligation and he can, in fact, regain the use of his original loan guaranty entitlement.

However, current law states that substitutions of loan guaranty entitlement can only occur if the veteran buying the home is the "immediate" transferee.

The above cited law change would simply allow a veteran purchasing a home on assumption to substitute his loan guaranty entitlement even if such veteran is not the immediate transferee. In such cases, the loan guaranty of the original veteran purchaser would be restored.

21-217 O—83——10

Mr. Chairman, the Disabled American Veterans strongly supports this reasonable modification of law. Recently, the National Executive Committee of the DAV unanimously approved a resolution calling for our organization to take this position. Such a change of law would have no significant budgetary impact on the VA while, on the other hand, it would certainly be most beneficial to individual veterans and the home loan financing process.

Mr. Chairman, this completes my statement. I want to again thank you and the members of the Subcommittee for allowing our organization the opportunity to participate in today's proceedings.

* * *

Motto: "If I cannot speak good of my comrade, I will not speak ill of him."

DISABLED AMERICAN VETERANS

NATIONAL SERVICE and LEGISLATIVE HEADQUARTERS
807 MAINE AVENUE, S.W.
WASHINGTON, D.C. 20024
(202) 554-3501

April 25, 1983

Honorable Richard Shelby, Chairman
Subcommittee on Housing & Memorial Affairs
House Veterans Affairs Committee
335 Cannon House Office Building
Washington, D. C. 20515

Dear Chairman Shelby:

During the April 21 oversight hearing conducted by your Subcommittee on the Home Loan Guaranty Program of the Veterans Administration, you requested that I furnish, for the record, the position of the Disabled American Veterans on a proposal made by a representative of the American Legion.

During the hearing the American Legion stated their belief that the option of the "buyer-broker" system should be made available in the VA's Home Loan Guaranty Program.

Briefly, the buyer-broker system, as I understand it, is one in which an individual seeking to purchase a home hires a real estate agent (buyer-broker) to search for a home and, once found, to negotiate for the purchase of the home with the seller and/or his agent. The theory being that the buyer-broker will be able to negotiate a purchase price that will save his client money, notwithstanding a fee charged by the buyer-broker.

As I recall, it was the opinion of the American Legion that the Veterans Administration's Home Loan Guaranty Program should encompass "buyer-brokering" and its attendant fees.

The Disabled American Veterans has no official position on this proposal, as we have received no such mandate from the delegates to our most recent National Convention. As you may be aware, the Constitution and Bylaws of our organization state that the Annual Legislative Programs of the DAV may only consist of those measures that have been approved, in resolution form, by the delegates to our Annual National Conventions.

Notwithstanding the above, and noting that during the hearing you indicated your intent to solicit the views of the Veterans Administration on the buyer-broker option, we in the DAV certainly encourage your Subcommittee to give this proposal full consideration toward the end of discerning if it might prove to be beneficial to the VA Home Loan Guaranty Program and its veteran beneficiaries.

Trusting that your inquiry has been answered, I remain,

Sincerely yours,

JOHN F. HEILMAN
National Legislative Director

JFH:ah

Statement of

The American Legion

1608 K STREET, N. W.
WASHINGTON, D. C. 20006

EMIL W. NASCHINSKI, ASSISTANT DIRECTOR
NATIONAL ECONOMIC COMMISSION

and

PAUL S. EGAN, DEPUTY DIRECTOR
NATIONAL LEGISLATIVE COMMISSION

before the

SUBCOMMITTEE ON HOUSING & MEMORIAL AFFAIRS
COMMITTEE ON VETERANS AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

on

VA HOME LOAN GUARANTY PROGRAM

April 21, 1983

STATEMENT OF
THE AMERICAN LEGION

1608 K STREET, N.W.
WASHINGTON, D.C. 20006

BY

EMIL W. NASCHINSKI, ASSISTANT DIRECTOR
NATIONAL ECONOMIC COMMISSION

BEFORE THE

SUBCOMMITTEE ON HOUSING & MEMORIAL AFFAIRS
COMMITTEE ON VETERANS AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

ON

VA HOME LOAN GUARANTY PROGRAM

APRIL 21, 1983

Mr. Chairman and distinguished members of this Subcommittee:

The American Legion would like to thank you for allowing us this time to present our views on both the Veterans Administration's home loan guaranty program, and on proposed legislation that would provide financial relief to homeowners who are facing foreclosure on their VA mortgages.

The VA's home loan program was originally conceived as part of the Servicemen's Readjustment Act of 1944, Public Law 78-346. The purpose of this legislation was to aid in the economic and sociological readjustment of the millions of men and women who were then serving in the Armed Forces. This program was viewed as a viable alternative to a cash bonus as it was vastly less expensive to the Government, and because it would better serve the needs of the veteran and the economy.

Supporters of PL 78-346 felt that veterans, because of their service to their country, had missed an opportunity to establish a credit rating

which would be the basis of borrowing to acquire home or business loans. In essence, it was an attempt to place the veteran on an economic par with his/her nonveteran counterpart.

The supporters of this legislation also saw a home loan guaranty program for veterans as an investment outlet for the vast amounts of individual savings that had accumulated during World War II. During the war years, normal investment outlets were restricted because of the shift from the production of civilian goods to war materials. As a result, large sums of money became available for investment purposes. It was expected that a normal postwar depression would occur making it important that planning be done to stimulate the redirection of accumulated liquid capitol into normal peacetime avenues.

Despite the very difficult economic times that followed World War II, the VA home loan program was a stunning success. In fact, the positive impact that it has on our people and our economy might be described as staggering! To date, over 11 million veterans have become homeowners because of the VA's mortgage backed loan guaranty. The result of this activity has been that private lenders have been able to extend over $204 billion dollars for the purchase or construction of homes. Granted, many of these 11 million veterans could have qualified for other types of financing; however, many others could not have.

Over the years, this program has undergone numerous changes in an attempt to keep pace with a changing economy, and the needs of the veteran. Some of those changes are as follows: eligibility delimiting dates have been extended; mortgage guarantees have been increased; the maximum maturity of loans has been lengthened; and loan guaranties are now available for mobile homes and condominiums. Mr. Chairman, in view of the present economy and the record

high level of unemployment that exists among veterans, expecially those of the Vietnam era, it would appear that additional reforms in the VA loan guaranty program are necessary if it is to remain viable.

Presently our country is faced with a recession that has caused unprecedented levels of unemployment. This, of course, has had a dramatic impact on the rates of delinquency and foreclosure.

By the end of 1982, 2.18 percent of all mortgages were 60 or more days delinquent. This is by far the highest percentage in the past decade. Additionally, it was reported that foreclosure rates had reached the highest levels since the 1960s and that the number of actual foreclosures was the highest since the depression.

According to information that was recently supplied to us by the Veterans Administration, the number of VA home loans dropped by 86.4 percent between the beginning of 1980 and the end of 1982. During that same period, the number of foreclosures rose by an astonishing 63.4 percent.

The Veterans Administration's Loan Guaranty Service must be congratulated for its efforts to prevent unnecessary forclosures. It provides economic counseling to veterans who are in jeopardy of losing their homes, and will work with the homeowner and the lender to arrange for a plan of forebearance whenever possible.

While the VA's efforts are commendable, it is apparant that a great deal more needs to be done. This Subcommittee currently has a piece of legislation before it that would provide foreclosure relief. It is imperative, Mr. Chairman, that it be scrutinized closely and that affirmative action be taken.

There is another possible source of foreclosure relief that The American Legion would like this Subcommittee to consider. Last year, Congress approved a charge of one half of one percent (.05) user fee on the origination of all new VA home loans. Currently, the proceeds from this fee are being placed in the U.S. Treasury. May we suggest, Mr. Chairman, that this money be placed in a special fund and loaned, at low interest, to unemployed veterans who are in imminent danger of losing their homes through foreclosure. If such a plan were adopted, the cost to the Government would be negligible.

In addition to addressing the problem of foreclosure, The American Legion would also like this Subcommittee to examine three other initiatives which we feel would greatly enhance the VA home loan program. Not only would these initiatives make home loans available to a wider range of veterans; but, they would cost the Government little or nothing to implement.

In 1981, Congress amended the National Housing Act to allow buyer brokering in connection with FHA home loans. Under this system, the purchaser has the option of hiring a real estate agent to search and negotiate for a residence at the lowest possible price. The broker, who works exclusively for the buyer, usually charges a set dollar amount. Generally, the broker's fee ranges from approximately $1,200 to $2,000.

The use of a buyer broker can literally save a home buyer thousands of dollars on price, settlement costs, and other charges. One example of this recently appeared in the Washington Post. According to that article, a broker in Seattle was able to negotiate a $15,000 reduction in the cost of an $85,000 home. He also was able to arrange financing that was highly favorable. The broker's fee for this service was a mere $1,250.

Despite the fact that the buyer broker system has the potential of saving money for the purchaser, the VA has adopted a position against its use in connection with VA home loans. Frankly, Mr. Chairman, The American Legion is puzzled by the VA's response. We feel strongly that this option should be made available for veterans to use in conjunction with their VA entitlement, as it would make housing more affordable.

The second initiative, which is supported by both The American Legion and the VA, would require an amendment to Title 38 United States Code. This amendment would require the substitution of the word "subsequent" for the word "immediate" under Section 1802. Simply stated, this change would restore the veteran's home loan entitlement when the veteran-transferee is not the immediate transferee.

According to correspondence that we have received from the VA's General Counsel, the Administrator has submitted this proposal to Congress with the request that it be introduced and promptly enacted.

The third initiative that we support could possibly open the market for a whole new type of home. Presently, the VA has no provision for the purchase and renovation of "rehab homes." We feel that a veteran should be granted a loan for the purchase and renovation of a home that does not meet code requirements, provided that he/she can have the dewelling brought up to code within a reasonable amount of time. The American Legion can foresee a great demand for this type of housing and this provision would provide the veteran with one more option in the quest for affordable housing.

Mr. Chairman, that concludes our statement. Once again, The American Legion would like to thank you for allowing us this time to present our views on these vital issues.

VETERANS OF FOREIGN WARS OF THE UNITED STATES

OFFICE OF THE DIRECTOR

STATEMENT OF

JAMES N. MAGILL, SPECIAL ASSISTANT
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

WITH RESPECT TO

VETERANS HOME LOAN GUARANTY PROGRAM

WASHINGTON, D.C. APRIL 21, 1983

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

Thank you for the opportunity to present the views of the Veterans of Foreign Wars of the United States with respect to the Veterans Home Loan Guaranty Program. The VFW is appreciative of the Chairman for holding this hearing, demonstrating his and the Subcommittee's continuing concern for our nation's veterans.

Mr. Chairman, the VFW considers the Veterans Administration Home Loan Guaranty Program as one of the most successful and beneficial programs administered by the VA. Its popularity is evidenced by the fact the VA just recently approved its 11 millionth loan. We believe this program should continue to enjoy the full support of the Congress and the Administration.

Recently, the nation's economy has shown improvement and various economic indicatiors project this trend will continue. Interest rates are dropping and the housing industry is reporting an increase in re-sales and construction starts. Because of this, veterans can be more optimistic in realizing the American dream

of home ownership. As was once the case, a high mortgage payment is no longer the single prohibiting factor in deciding to purchase a home. Two income families, in most cases, are able to meet the monthly payments. It now appears, with consumers saving less because of recent economic trends, the down payment required by conventional lenders has become the first great obstacle to home ownership. Fortunately, veterans enjoy an alternative to this requirement through utilization of their VA-guaranteed loan.

The VFW believes there will be a substantial increase in activity in the VA Home Loan Guarantee Program. In fact, information available to us indicates for the period September 1982 to February 1983 the VA has had an increase of over 150 percent for applications in both appraisals and loans as compared to the same period during 1981-1982. In addition, the VA has guaranteed over 200,000 loans with interest rates in excess of 12 percent. With interest rates currently at or below 12 percent, many veterans are finding it advantageous to re-finance their VA guaranteed home loan; thus putting additional pressure on the VA. It is also our understanding that staff reductions through re-assignment were made in the program when high interest rates were a major factor for a decline in loan applications. Now, with lower interest rates spuring increased activity we believe additional staffing should be made for the VA Home Loan Guaranty Program in order for applications to be processed on a more timely basis.

Mr. Chairman, detached homes have reached an almost prohibitive cost level. Because of this, condominiums and townhouses have been the only option available to most first-time buyers. However, with an average VA loan of about $20,000, manufactured housing is becoming more and more attractive. This type of housing is certainly in a more realistic and affordable price range, and, because of increased acceptably and high construction standards, appreciation in re-sale value

can be expected. Unfortunately, VA guaranteed loans for manufactured homes do not enjoy the same terms as conventionaly constructed units. The VFW believes this situation should be corrected and would support such legislation.

It is our understanding legislation will be introduced to provide financial relief to VA homeowners facing foreclosure. We believe every effort should be made in helping the veteran remain in his home and avoid the far reaching social and financial effects of foreclosure. One such proposal would provide one year of relief for those facing foreclosure who are at least six months in arrears. With funding made available through the Direct Loan Revolving Fund, the homeowner would receive monthly assistance for principle, interest and tax payments. In addition, the homeowners account with the lending institution would be brought up to date. While we certainly do not object to such a proposal, we would encourage the VA to be extremely cautious in not offering such a plan in a situation where re-payment is not even a remote possibility. We also question why revenues generated from the "user-fee" could not be utilized instead of being returned to the general revenue accounts of the Treasury.

Finally Mr. Chairman, we understand a technicality exists in 38 USC 1802 in which certain veterans may not nave eligibility restored for a VA guaranteed home loan. Because in certain circumstances when the veteran transferee is not an "immediate" transferee, the original veteran purchaser cannot have eligibility restored until the loan has been completely satisfied. By substituting "subsequent" for "immediate" this inequity would be corrected. The VFW would support such action.

Mr. Chairman, this concludes my statement. I will be happy to respond to any questions you may have.

TESTIMONY OF LT. COL. DAVID J. PASSAMANECK, USA, RET.
NATIONAL LEGISLATIVE DIRECTOR

Before The
SUBCOMMITTEE ON HOUSING & MEMORIAL AFFAIRS

Of The
COMMITTEE ON VETERANS' AFFAIRS
U. S. HOUSE OF REPRESENTATIVES

April 21, 1983

AMVETS appreciates this opportunity to present its views on proposed legislation relating to the VA Home Loan Program. We favor the proposal to provide escrow funds for the amortization of VA guaranteed mortgage loans which are deliquent for 6 months or more because of the unemployment or underemployment of the veteran mortgagor. The intent of such legislation, as a temporary emergency measure, with a limit of approximately $8,400 and a durational limit of 2 years, would, we believe, offer needed relief from some of the harsher consequences of the current recession for our veteran homeowners, who have been subjected to a greater foreclosure rate than other government guaranteed mortgagors.

AMVETS also favors legislation to restore loan guarantee eligibility to veterans where an original obligation is subsequently assumed by an eligible veteran. We believe H.R. 2505 will accomplish this purpose and we favor its enactment.

We also favor legislation to equalize eligibility limits for manufactured housing.

This concludes my testimony. I am prepared to answer any questions.

TESTIMONY OF HORACE SMALL REPRESENTING THE PHILADELPHIA UNEMPLOYMENT PROJECT, BEFORE THE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS OF THE UNITED STATES HOUSE OF REPRESENTATIVES, APRIL 21, 1983

PHILADELPHIA UNEMPLOYMENT PROJECT
2115 South Street
Philadelphia, PA 19146
(215) 545-7512

Gentlemen, on behalf of the Philadelphia Unemployment Project, and thousands of distressed homeowners throughout the nation, I thank you for the opportunity to make a statement concerning the serious problem of mortgage foreclosures under the VA home loan program.

The Philadelphia Unemployment Project (PUP) is an organization of unemployed workers in the Delaware Valley which has, for the past eight years been devoted to meeting the needs of the unemployed. Over the past year, PUP became increasingly aware that many unemployed individuals were facing the loss of their homes thru foreclosure sales. In the fall of 1982, PUP began operating a well publicized mortgage foreclosure hotline, and formed a foreclosure crisis committee which holds regular meetings of homeowners facing foreclosure due to financial hardships.

Many of these homeowners facing foreclosure had VA guaranteed loans.

It became immediately apparent to us, that mortgage foreclosures of homeowners who had VA loans was frighteningly high. In Philadelphia, we have seen for all mortgages a 22% increase in foreclosure judgments listed for sale between 1980 and 1982. Since 1978, we have seen chapter 13 bankrupcies, a major means of delaying sheriff sale, rise from 354 to 3,786 a year in 1982. The Mortgage Bankers Association statistics show that in Pennsylvania, the rate of mortgages in foreclosure rose from a .5% in June of 1980, to .9% in September of 1982. The VA figures show a similar increase. For example, in Pennsylvania, the rate of VA guaranteed loans in foreclosure rose from .90% in June of 1980 to 1.66% in September 1982. Nationally, the number of VA guaranteed loans in foreclosure rose from .38% in June of 1980 to .71% in September of 1982.

Unfortunately, there is no immediate end in sight to the foreclosure crisis. Even Reagan Administration officials project national unemployment rates to be extremely high for all of 1983 as well as 1984. While the national unemployment rate has droped slightly, the Pennsylvania rate continues to grow. As workers continue to exhaust their unemployment

benefits as well as their savings, we will continue to see an even larger number of Pennsylvania families being forced from their properties.

As more and more homeowners with VA guaranteed loans came into our office, we began to examine the policies and practices of the VA in assisting homeowners with VA guaranteed loans who are facing foreclosure due to financial hardship. We immediately discovered, that the VA did nothing to assist homeowners who are facing foreclosure due to circumstances beyond their control. We were shocked to learn that when a homeowner in financial distress called the VA, the VA informed them that there was nothing they could do. The homeowner was told to contact his mortgage company, or go to their nearest welfare office. If the homeowner was unemployed, the VA simply told him to get a job, and then they may be able to do something for him. In essence, homeowners were told the VA would not assist them, and they were placed in the mercy of the mortgage company to prevent the foreclosure of their home.

We reacted strongly to this so called "assistance" that was being provided by the VA. We soon discovered that while the VA had the authority to provide broad relief to VA homeowners facing foreclosure of their property, they in fact refused to do it. The VA has ample authority to assist VA homeowners to prevent them from losing their homes thru mortgage foreclosure. For example, the VA has available a procedure in their regulations called refunding. Under this procedure, the VA can buy the mortgage from the mortgage company and become the mortgage holder. The VA then can enter into a reduced payment plan with the veteran.

We discovered this procedure to be a well kept secret by the VA. I have enclosed a copy of the refunding procedures to my testimony. Although the procedures state that virtually every case should be reviewed by the VA for refunding before foreclosure is authorized, the homeowner is never informed of the availability of the program or even that the VA is considering refunding of a loan. In the procedures, there are four criteria listed for refunding. They consist of the following:

1) The refunding will be in the best interest of the Veterans Administration.

2) The default was not willful.

3) The homeowner is desirous of retaining his property.

4) The homeowner is deserving of VA assistance.

It is obvious that for the VA to make an informed decision as to whether or not refunding should be granted, information from the homeowner must be obtained. How can the VA determine whether the default was willful unless they allow the homeowner to explain the reasons for the default? Despite this, the VA refuses to tell the homeowner of the availability of refunding or give the homeowner any opportunity to give the VA information regarding the possibility of refunding a loan.

The result of all of this, is what one would expect. Despite the large number of VA loans that have been foreclosed across the country the number of loans that have been refunded by the VA is extremely low. In 1980, the VA refunded 162 loans. In 1981 the VA refunded 188 loans. And in 1982 the VA refunded a total of 115 loans nationally. In the last year, the Philadelphia regional office of the Veterans Administration, which covers 40 counties of Pennsylvania, and the entire state of Delaware, refunded a total of 5 loans.

The VA'S failure to properly examine refunding possibilities, not only adversely affects the homeowner, but also has a negative economic impact for the VA insurance fund. In virtually every case where refunding is denied and a foreclosure takes place, the VA is forced to pay off the mortgage claim plus substantial attorneys fees and costs. In addition, they must acquire the property and continue to spend money for managing the property. In many instances, the property depreciates in value and the VA continues to lose money when the property is finally sold. We are informed that the average loss on a property through foreclosure is approximately $8,000. If the VA accepted refunding, of the mortgage, there is a good likelihood they would lose nothing.

The financial risk to the VA under the refunding program is minimal compared to the possible strong economic gains that can take place if the VA accepts refunding and the homeowner reinstates the loan.

We also discovered that while the VA had a published policy of requiring mortgage companies to accept payments where 50% or more of the payment is offered, the mortgage companies virtually ignored this regulation. The VA regional office in Philadelphia admitted that mortgage companies did ignore this regulation, but to this date has done absolutely nothing to ensure its enforcment.

PUP began meeting with the Philadelphia regional office to try to have them change their policies of assisting veterans. Initially, we were able to get the Philadelphia office to change their policy regarding what type of assistance they would provide to homeowners facing foreclosure. The VA told us in January 1983 that they would in case of a veteran who has experienced financial difficulty due to circumstances beyond his control and there is resistance on the part of the mortgage lender to accept a reasonable resolution, the VA will intercede in his behalf includung refunding of the loan if necessary Under this policy, we were able to resolve for several of our members the serious foreclosur problems they faced. However, it became clear tous that unless a person came into our office, and we took that person down to the VA and form a picket line, VA homeowners were continually being told that nothing could be done for them.

Recently, we met with national officials of the Veterans Administration in Washington and we described the serious problems that we saw regarding [illegible] istance to homeowners facing foreclosure. Although we obtained some general [illegible] t that the VA would "intercede with mortgage holders and would recom[illegible]d red[illegible]nt plans when the situation warrants" we were unable to develop a specific pr[illegible]h that policy would be implemented. On April 13, 1983, we again met with [illegible]als of the VA in the Philadelphia regional office. At that time, we pres[illegible]he VA a detailed procedure on how the VA could provide assistance [illegible]A homeowners. We have attached a

copy of these procedures to the testimony.

Unless the VA immediately implements a procedure which is made known to the veteran, to VA employees, any "policy" will have little effect. This is exactly the case in Philadelphia. Although four months ago we were told a new policy was created, the reality is that this policy only applies to people who come to our organization or other organizatior who put strong pressure on the VA to get relief. I would like to take the time to read these procedures as we believe that the lakc of such procedures are the crux of the problem facing the VA.

We also have found, that the problems we face with the VA are not unique to our area. We are members of the National Unemployed Network (NUN) which consists of similar organizatic from across the nation. Through this network we have found that the VA consistently exhibits a great reluctance in utilizing their services or programs to keep homeowners in their property. We have found that the only time homeowners get action, is when 100 people demonstrate at the local offices with TV cameras and the local press. Without that public pressure people go to the VA by themselves and leave depressed and dispondant. In Gary Indiana for example, the regional office services the northernmost part of Indiana. The Gary office does not even have a mortgage counselor. Instead, troubled homeowners are given a toll free number, or are told to drive to the VA office in Indianapolis, a drive of 3 hours or more depending upon where they live. Imagine if you will, the bitterness one feels to go that far to be told nothing can be done for them without a job. Throughout the United States, in Chicago, Oakland, Newark, Baltimore, Minneapolis, and hundreds of other cities, the problems we face in Philadelphia, are shared by all, and that is the unwillingness of the VA to act in behalf of the homeowner, unless they are forced to by demonstrations and sit ins.

We urge this committee to take strong action so that veterans facing financial hardship due to circumstances beyond their control no longer lose their property. We urge that unless the VA immediately adopts the attached procedures or equivalant procedures as binding regulations , that this committee adopt legislation that would require the VA

to follow such procedures. Our organization would be glad to work with you in helping you to draft this legislation.

Finally, we would like to mention that we have been informed that the VA is about to implement a moratorium on evictions from properties that have been foreclosed which had a VA guaranteed loan. We commend the VA for such action and believe that it is a beginning step in trying to resolve the overall problem. However, we strongly urge that the problem should not wait until the homeowner is about to be evicted after a sheriff sale has taken place. Under our proposal, the VA would intercede at the very beginning of the process when the homeowner begins to face foreclosure. This would not only save thousands of dollars in attorneys fees and costs, it would also save the most prized possession of the veteran, his home. Again, we thank you for the opportunity to testify before you.

liquidation by the VA is intended, no acquired loan account will be established for subsequent loan servicing. (See also M[26-4], par. 2.12 c and d.)

d. Refunding To Avoid Liquidation. A decision to refund will require due consideration for all pertinent factors, including (but not limited to) the facts developed through loan servicing by the holder and the VA, the current reasonable value of the property, the amount delinquent, the unpaid balance of the indebtedness, and the borrower's present and potential ability to pay. It should be established beyond reasonable doubt that:

(1) The refunding will be in the best interests of the VA.

(2) The default was not willful.

(3) The borrower is desirous of retaining his property.

(4) The borrower is deserving of VA assistance.

d.1 Special Cases. There will be cases which do not meet all the criteria specified above, but which should be refunded because it would be to the best interests of the Government to avoid acquisition of the properties. These would include cases in projects or areas where the VA already owns a number of properties and the sales market is inactive, or it is anticipated that particular property, whether the property is located in a project or not, would be difficult to sell or would be saleable only for an amount substantially below VA's investment. In such cases, even though the payment record of the owner would not warrant indulgence, it may be in the interests of the Government to refund the loan provided there is some likelihood that the loan payments will be made by the borrower. In this connection an extension and reamortization of the loan may be warranted. (See subpar. g(2) below.) In all cases involving properties of the kind described herein, thorough consideration should be given to the possibility or refunding.

e. Submission to Central Office. Occasionally there may be situations in which the advice of Central Office is desired before making a determination to refund the loan. Where such advice is desired, the case should be submitted to Central Office (261) with:

(1) The complete loan docket.

(2) A concise summary, in duplicate, of the history of the case, including the amount delinquent and the present loan balance in round figures, with the recommendations of the station management.

(3) A recent appraisal showing the current reasonable value of the property, unless time or circumstance does not permit its inclusion. (Reappraisals by anyone who previously appraised the same property will not be submitted without an explanation of the reason therefor, by separate memorandum or a signed notation on the Appraisal Report, VA Form 26-1803.)

(4) The borrower's financial statement on VA Form 26-6807 (par. 3.38).

(5) Any other pertinent information or material which is available.

f. Acquisition Procedure. Upon arriving at a decision to refund, the holder shall be given formal notice that VA is exercising its option to refund the loan under VA Regulation 4318. The borrower also will be notified of the decision, and there will be obtained from him the VA Form 26-6807a, Supplemental Certification for Financial Statement (par. 3.39), executed by both the veteran and spouse if the property is held jointly, and unless previously received, obtain the obligor's signature to VA Form 26-6383, Hazard Insurance Renewal Authorization. All costs of acquisition will be charged to the borrower's account as advances unless paid by him upon acquisition of the loan by VA. (See par. 3.19b.)

(1) Holder's Statement of Account. (See par. 3.19a.) The holder will be requested to submit a statement of the loan account in duplicate with the original certified. The statement shall be in sufficient detail to show

PROCEDURES TO BE FOLLOWED BY THE VETERANS ADMINISTRATION TO PROVIDE ASSISTANCE TO HOMEOWNERS UNDERGOING FINANCIAL DIFFICULTIES.

1. A letter will be sent out by the VA to all homeowners with VA guaranteed or insured loans explaining to them the policies and assistance that the VA will provide to homeowners undergoing financial difficulties. The policy will state that:

> In the case of a veteran who is experiencing financial difficulty due to circumstances beyond his/her control and, there is resistance on the part of the mortgage lender to accept a reasonable resolution, the VA will intercede in his/her behalf including refunding the loan if necessary.

The letter will explain the process that will be followed if a veteran undergoes financial difficulties. It will explain how a reasonable payment plan will be determined and it will encourage the veteran to contact the VA if such problems occur.

2. A letter will be prepared and sent out in all cases where the VA receives a Notice of Default from the mortgage company. This letter will explain the VA policy and procedures and encourage the veteran to contact the Veteran Administration immediately.

3. After a veteran contacts the VA, they will be requested to come into the VA office to have a thorough review of their problem by the VA. An appointment will be made and a letter will be sent out to the veteran explaining the VA's policy in helping mortgagors, explaining what to bring to the appointment, and confirming the appointment date. If the veteran lives too far from the VA office, the interview will be done over the phone.

4. After the veteran comes into the VA office, a thorough review of the facts will be done by the VA. At that point a reasonable payment plan will be determined and the veteran will be given a written statement as to what the VA considers to be a reasonable payment during their period of financial hardship.

5. For the purposes of determining a reasonable payment, the VA will not require the mortgagor to pay more than 35% of their net effective income for their mortgage payment, maintenance and utility costs during their period of financial hardship. This reasonable payment can go up to a period of five years. The mortgagor's income will be reviewed every three months to determine if financial circumstances have changed and if they can afford to pay an increased payment.

6. The mortgage company will be notified of the determination of what a reasonable payment is and encouraged to accept these payments. If they refuse of if they accept the payments for a short period of time and then refuse, the VA will then accept refunding of the mortgage.

7. Repayment. If the VA determines that the mortgagor's income is sufficient under the (35% test) to pay a normal mortgage payment, a payment plan will then be worked out in which the mortgagor begins to repay the arrearage that has been built up on the mortgage. This can be done in one of two ways. The arrearage can be added on the end of the first mortgage and then after those payments are made, payments can be made in a sum equal to the original mortgage payment or, after the mortgagor gets back on their feet the arrearage is divided into the remaining life of the mortgage and the mortgagor pays on a monthly basis the prorated amount.

8. If mortgage companies refuse to accept reasonable payment plans, the VA will terminate them as an approved VA lender.

600 WALNUT ST.
McKEESPORT, PA. 15132
PHONE 412-678-1409

April 20, 1983

Dear Representatives:

My name is Dave Carter, I'm a veteran and a worker. I'm here today because I believe in the United States of America and what it stands for.

I served 4½ years in the U.S. army, got married, and started to build a family and a home. Upon discharge I knew that I was entitled to aid in buying a house and to go to school under the so-called "GI Bill".

While in the service I had a couple asthmatic attacks. The army sent me to Walter Reed army Hospital in D.C. where I was tested and found to be allergic to certain things. Some could be relieved by an immunation program which they started me on and continued throughout the rest of my tour of duty. The army told me when I got out to see the V.A. and the V.A. would continue the program. When I went to the V.A. they told me fine, come into the V.A. hospital 3 times a week and they would administer the shots required. I told them I lived 50 miles away and could not afford to travel 100 miles 3 times a week. They said: "sorry we can't help you". I asked what what benefits were available and they told me, I could buy a house with V.A. insured loan and could go to an approved school. I tried the school, I applied and was accepted for a correspondence course through Bell and Howell to learn radio and T.V. repair. I was carrying a grade of 90% when a

nassle arose which resulted in my being discharged or withdrawn from the course dispite my objections and my sincere interest in the subject matter. I calledtthe V.A. and asked for assistance and filed a complaint that the school was a sham and taxing veterans for all they were worth then dumping them. The V.A. told me they could do nothing. I asked them to take the "school" off their approved list and tney gave a lot of hems & haws & no positive answer. The Federal Trade Commission 4 years later took Bell & Howell to court and won. When I tried to buy a house the attorney for tne seller refused to deal with me saying a V.A. loan Takes Too Long for approval, saying it took 6 weeks to 3 months. When I called the V.A. they confirmed this, result I didn't get the house. These examples are my personal dealings with the V.A. maybe others do better, but I can't help wondering and doubting.

Since I have been with the MVUC I have learned the #one insurer involved in foreclosures in this time of economic crisis is tne V.A. In our area many of the banks have not been working out reduced terms with veterans. The president of one Savings and Loan Co. told us last month: " why should he do that and take a loss when he knows ne can collect a full pay off from tne V.A. when the veterans home goes thru sheriff sale." The V.A. has a refunding program which is not applicable to the unemployed nor utilized very often. It calls for a payment of 125% to 150% of tne orginal mortgage payment. This only makes conditions impossible for the home owner because his income is now lower and his housing costs are increased. When I asked how many homes or houses the Pittsburgh office was holding they told me 350-400 in western Pa. I asked them and I ask you: is putting 350-400 families out of their homes and leaving these houses vaccant for robbers, strippers,vagrants, and teenagers toramsack in the best interests of the government, tne public, or the community? Who does it benefit? From my view point it looks as though the banks and lending institutions are the only ones, at the expense of the homeowner and the government. No, I am not being anti-banking and I do believe they are entitled to make a fair profit. However,

when the bank lends money to a worker they really invest in his ability to make money for them and himself. When this ability is removed through no fault of his own then I feel the bank and the V.A. should do whatever is necessary to get this worker back on his feet even if this results in a slight loss in profit temporary. Note: the average cost according to the V.A. to foreclose is $9,000.00 per house. A lot of homes could be saved for a lot less cost if we try. Ifeel the V.A., the Government, the public, the homeower,and the banks would be better served if the V.A. had a program similar to the FHA assignment program or determine what the homeowner could afford to pay from his or her income and supplement this income until his or her income resumes at a normal level. This supplement could be paid back at a latter date when either the homeowners income increased enough to handle it or be extending the mortgage period. if this plan were administered with sincere effort to help the homeowner I feel it would be highly successful.

If the VA would be more supportative of the veteran on a more personal basis all of us would be better off. It is my personal opinion: the more we help ourselves the more others help us. This country is only as good as the people it is made up of. Helping them achieve ther individual goals helps the country. Congress and the government has a responisiblity to protect the rights of all the citizens and especially the workers whose taxes pay the bills and the veterans who have donated their time, risked their lives and gave up their freedom while serving to defend this country. quit bitting the hand that feeds you.

since

Sincerely,

David A. Carter, Citizen, Taxpayer, V
Veteran and Unemployed worker

Federal National Mortgage Association

FNMA

3900 Wisconsin Avenue, NW, Washington, DC 20016
202 537 6710

Robert J. Mylod
President and
Chief Operating Officer

June 8, 1983

The Honorable Richard Shelby
Chairman
Subcommittee on Housing and Memorial Affairs
Committee on Veterans Affairs
U.S. House of Representatives
Washington, D. C. 20515

Dear Mr. Shelby:

Thank you for the invitation to submit comments on H. R. 2618, a bill to authorize the Administrator of the Veterans Administration to provide mortgage assistance to veterans with loans guaranteed by the VA in order to avoid foreclosure.

The Federal National Mortgage Association ("FNMA") is a federally chartered, shareholder owned and privately managed corporation. As the nation's largest single supplier of home mortgage funds, FNMA purchases mortgage loans from local lenders, thereby replenishing those institutions' supply of mortgage money.

FNMA supports responsible state and federal legislation to deal with those cases of hardship where the homeowner is temporarily unable to meet mortgage payments because of recent unemployment, but opposes legislation that fails to distinguish between genuine cases of temporary hardship and cases of chronic delinquency in mortgage payments. Unless eligibility is tightly defined, such relief runs the risk of becoming a general homeowner subsidy program that fails to distinguish between temporarily unemployed homeowners and those without prospects for resuming full mortgage payments in the reasonable future. The government, in dealing with the problem of mortgage foreclosures, must balance the complex interests of homeowners, mortgagees, and taxpayers. FNMA supports legislation that provides for a fair balance, but cannot support legislation such as has been proposed in some states that would

simply transfer the burden of hardship from homeowners to lenders.

We have reviewed H. R. 2618, introduced on April 19, 1983, which would authorize the VA Administrator to provide financial assistance to veteran homeowners temporarily unemployed who are at least six months delinquent in mortgage payments and who have a reasonable prospect of being able to resume full payments within six months after receiving assistance. The assistance would be paid out of the VA direct loan revolving fund, and would be limited to $8,400 for any one veteran homeowner. The assistance would be in the form of an advance to the mortgage holder and would be applied by the holder first to the amount past due as of the date of advance, with any remaining amount to be applied to future payments as they became due. If the veteran defaults after having received all eligible advances, the lender is permitted to foreclose on the mortgage. In its general outline, the bill appears to meet the policy principles outlined above: it is a limited subsidy attempting to balance the interest of homeowners, mortgagees, and taxpayers by targeting eligibility to those with genuine prospects for resuming payments within a reasonable period of time.

On the other hand, especially as the economy begins an apparent recovery, it is a matter of legislative judgment whether limited federal funds should be spent on this type of assistance, compared with other pressing budget demands. FNMA, as an institution extremely sensitive to mortgage interest rates, has gone on record before committees of the House and Senate to express concern about the potential impact of the high level of federal deficits on future interest rates.

With respect to provisions of H.R. 2618, we would make three comments.

(1) The bill provides that assistance is available for temporarily unemployed veteran homeowners at least six months delinquent in their payment on the first mortgage. The bill does not specify whether the six months must pass before the homeowner can request assistance or whether the request for assistance may come during the delinquency period. As the Mortgage Bankers Association has recommended, a three month delinquency period prior to foreclosure would be

more appropriate, along with clarification that the assistance may be sought when the situation indicates it will be needed.

(2) There appears to be no reason to limit the legislation to homeowners facing foreclosure of a first mortgage. If the bill is intended to protect homeowners from foreclosure, it should similarily protect the homeowner facing foreclosure of a second mortgage, even where the first mortgage holder is willing to forebear.

(3) The legislation should clarify that any federal lien on the property involved, arising from payments by the VA administrator, will not take precedence over mortgages already on the property. This is necessary because lenders would be discouraged from participating in the program if they believed their security would be jeopardized by an intervening lien on behalf of the government.

Finally, we would point out that even without such legislation, responsible lenders are already bearing extra burdens to help homeowners in cases of special hardship. In particular, for all of its one -to four-family mortgages, including those covered by the special programs applicable to FHA borrowers, FNMA has instructed FNMA servicers to consider special forebearance to reduce or suspend monthly payments of mortgagors when the default results from a substantial reduction in income that the mortgagor could not have prevented.

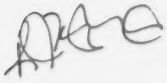
Again, FNMA must limit this policy to meeting the legitimate needs of homeowners with a past record of timely mortgage payments who are suddenly and temporarily unable to meet those payment obligations because of unemployment. The FNMA mortgage servicer must decide which mortgagors qualify and must set the terms of forebearance on a case-by-case basis.

We impose these conditions for the simple reason that the cost of forebearance on our part could become impossibly expensive if we were to open a loophole that would allow for large scale nonpayment of mortgage obligations by those not in genuine hardship. Our intention is to help the responsible homeowner facing a temporary inability to meet

mortgage obligations because of unemployment -- one who has a past record of making timely payments and reasonable prospects (as determined by the mortgage servicer) for resuming those payments in the near future. Any responsible lender views foreclosure only as an act of last resort when all special arrangements have failed.

Thank you for the opportunity to submit these comments.

Sincerely,



RJM/cfb

○